6 Jul 2021

CMB International Securities | Equity Research | Company Initiation

New Hope Service (3658 HK)

Standing on the giant's shoulders; initiate with Buy

Born in Sichuan, it has taken advantage of its parentco's (New Hope Group, one of the global 500) fast expansion to reach 15mn sq m contracted GFA in 2020 mainly covering Southwest and East China. Looking forward, we expect the growth momentum to accelerate as 1) its parentco has achieved 71% sales CAGR in 2017-20 to reach RMB100bn and this would support >3mn high-end residential GFA/year. 2) Parentco's high-fee healthcare portfolio may provide another growth point. 3) Robust growth in commercial operation and VAS will support its high GPM. Therefore we expect NP to grow 67% CAGR in 2019-22E.

- **Managed GFA to grow 101% CAGR in 2019-22E:** As of 2020, its parentco has a total asset of RMB300bn, with property (45%), agriculture business (40%) and others. Rapid growth in property and agriculture alone would consistently bring >3mn sq m GFA contribution per year. Also, we may see improvement in its 3rd expansion and M&A capability in Sichuan under favorable policy and in YRD region under parentco's network. So we expect managed GFA to surge at 101% 2019-22E CAGR reaching 53mn sq m.
- **High-fee healthcare portfolio to be another growth engine.** Currently, New Hope Group manages three healthcare portfolios including hospital, beauty clinics and wellness centres. With its fast expansion, we expect it will deliver ~0.3mn sq m in 2021E/22E with monthly PM fees of RMB19.5/sq m. This would generate ~RMB 30mn additional PM revenue, bringing its revenue to RMB34mn/64mn, 6.0%/6.1% of total PM revenue in 2021E/22E.
- **Robust growth in commercial operation and VAS to support high margin.** The Company enjoyed an industry-high gross margin of 40% mainly due to 1) high management fee as properties are mainly located in Tier 1-2 cities; 2) 70% GPM of commercial operation as it charges 10% rental commission, slightly higher than the industry; 3) Fast-growing retail and catering business in VAS. We expect margins to remain relatively stable as commercial portfolio would increase by 2-3 projects per year and VAS still grows fast on low base.
- **Net profit expected to grow 67% CAGR in 2019-22E:** With strong GFA growth, healthcare portfolio injection and commercial operation, we expect its revenue to grow 69% CAGR in 2019-22E, reaching RMB 1.8bn. Gross margin would lower slightly to ~37% on increasing residential mix, and thus net profits are estimated to reach RMB 298mn by 2022E (67% 2019-22E CAGR). Based on our score card, we assign 10x 2022E P/E to derive its target price of HK$4.41/share and initiate with Buy. **Risks:** parentco's sales slowdown**,** slow progress in third-party expansion and M&A.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY21E
Revenue (RMB mn)	258	381	588	1,109	1,832
YoY (%)	NA	47.5	54.6	88.5	65.2
Net profit (RMB mn)	41	64	110	197	298
EPS (RMB)	N.A.	N.A.	0.14	0.24	0.37
P/E (x)	N.A.	N.A.	17.5	9.8	6.5
P/B (x)	N.A.	N.A.	13.3	2.1	1.6
Yield (%)	N.A.	N.A.	N.A	N.A	N.A
ROE (%)	10.6	15.1	19.9	17.2	21.8
Net gearing (x)	Net cash	1.38	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Initiation)

Target Price	**HK$4.41**
Up/Downside	**+53.1%**
Current Price	**HK$2.88**

China Property Sector

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Stock Data

Mkt Cap (HK$ mn)	2,320
Avg 3 mths t/o (HK$ mn)	N.A.
52w High/Low (HK$)	4.20/2.60
Total Issued Shares (mn)	8,140

Source: Bloomberg

Shareholding Structure

Mr. Liu Yonghao	66.9%
Free float	33.1%

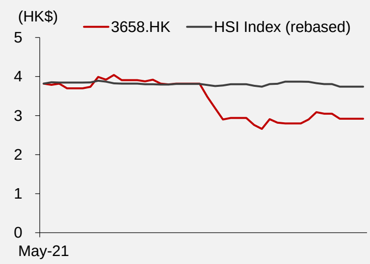
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-25.3%	-24.0%
3-mth	N.A.	N.A.
6-mth	N.A.	N.A.
12-mth	N.A.	N.A.

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

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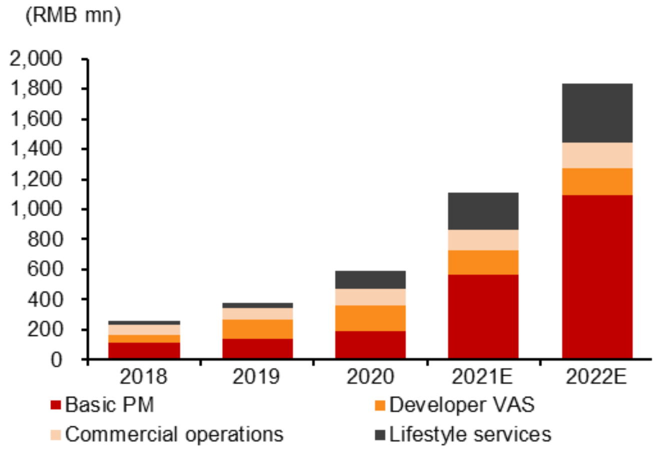
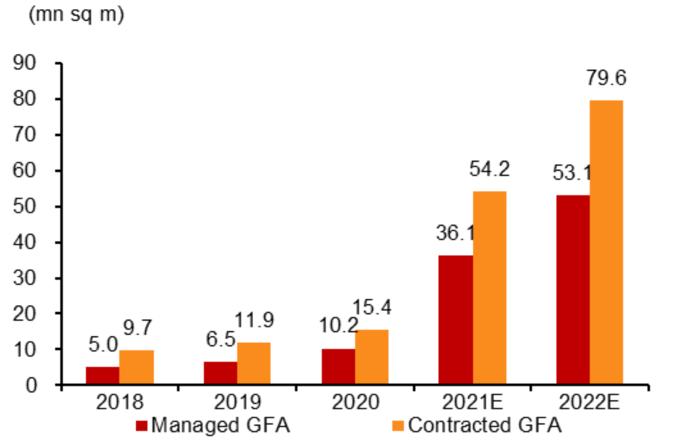


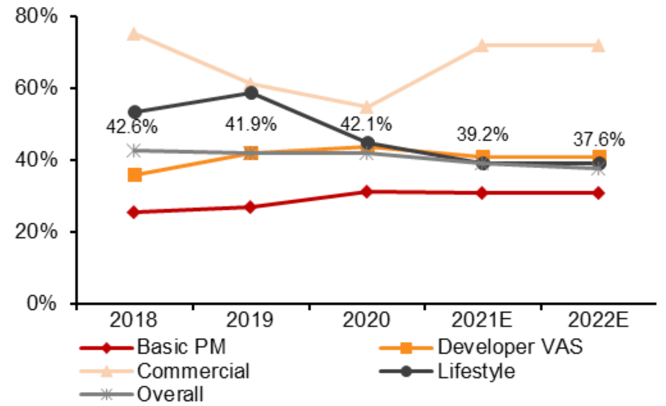
Source: Company data, CMBIS estimates

Figure 2: Managed and contracted GFA



Source: Company data, CMBIS estimates

Figure 3: Gross profit margin



Source: Company data, CMBIS estimates

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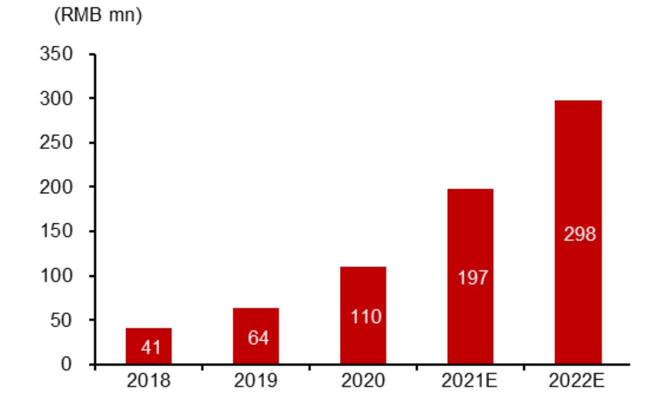
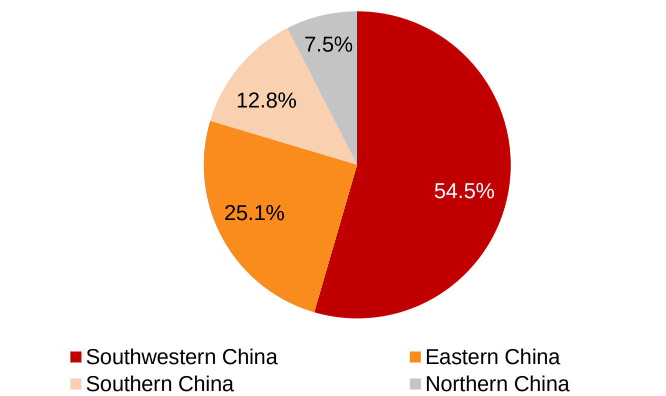


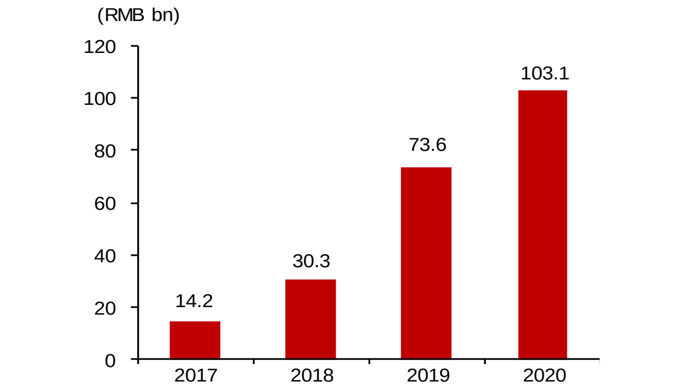
Source: Company data, CMBIS estimates

Figure 5: Geographical mix of managed GFA



Source: Company data, CMBIS

Figure 6: New Hope Group's contract sales, 2017-2020



Source: Company data, CMBIS

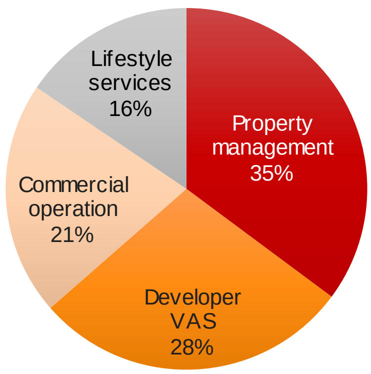
Executive Summary

The Company and its parent group

Founded in 2010, New Hope Service ("New Hope") is a Sichuan-based property management company that provides high-end PM services. As of 30 Sep 2020, the Company managed 55 projects in 14 cities, with 7.8mn sq m total managed GFA. As of the same date, the Company had PM contracts for 89 projects, with contracted GFA of 14.7mn sq m. Most of New Hope's property management projects are located in the first and second-tier cities in China.

The Company's business has four major segments: 1) basic PM services (35% of 9M20 total revenue), including cleaning, security, etc. to residential and non-residential properties; 2) non-owner VAS (28%), including sales office management, pre-delivery services and construction site management; 3) commercial operations (21%), including pre-opening preparation, and post-opening tenant management, and 4) lifestyle services (16%), including community living, community asset management, community retail and other diversified operations.

Figure 7: Business mix



Source: Company data, CMBIS estimates

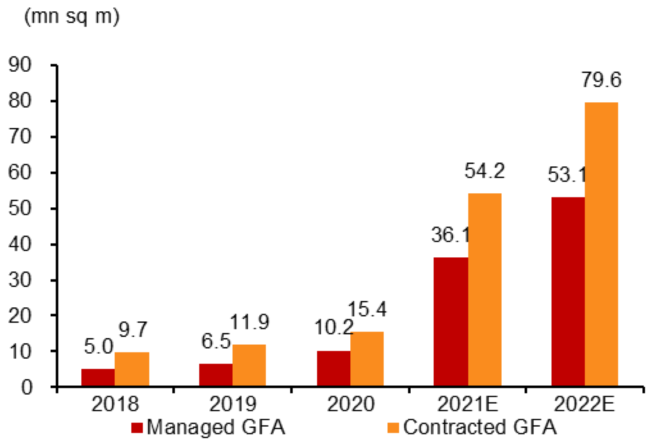
The Company's parent group, New Hope Group, is an industrial conglomerate with footprint in various industries, including food and FMCG, real estate, digital technologies, culture & tourism, healthcare, and finance. As of 31 Dec 2019, New Hope Group's assets exceeded RMB200bn with sales revenue over RMB100bn. For the Company, New Hope Group is an important supplier of dairy, food, beverage, snacks and other FMCG; the Company also manages properties under several New Hope subsidiaries.

The Company's parent developer, New Hope Property Group, is a fast-growing property developer in China. According to CRIC, its contracted sales grew with 93.6% CAGR in 2017-2020 and reached RMB103.1bn in 2020, ranked 50th among China property developers. As of 30 Sep 2020, New Hope Property Group provided 95% managed GFA and around 80% contracted GFA for the Company.

Investment thesis

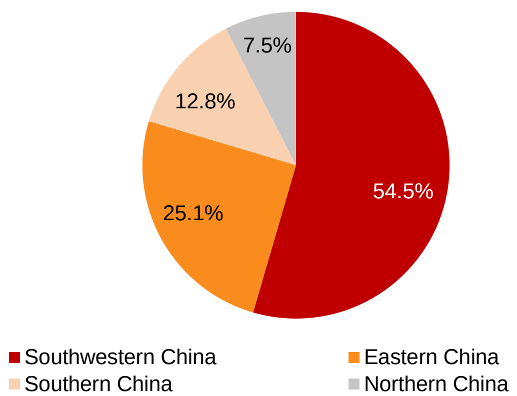
Managed GFA to grow by 101% CAGR in 2019-22E backed by 71% parentco sales CAGR in 2017-20 and third-party gains. New Hope Group's property sales from RMB21bn in 2017 to RMB 103bn in 2020 at a three-year CAGR of 71%. Although attributable ratio is only 50%, New Hope manages most of parentco's joint projects. Based on historical sales data, we expect delivery from parentco to increase to 3.3mn sq m/4.1mn sq m in 2021E/22E. Also, we expect improvements in third-party expansion as New Hope Group continues to expand geographically and gain connections in new regions including Eastern China. In addition, we expect geographic expansion and growth of the New Hope brand to facilitate M&A opportunities. We forecast third-party bidding and M&A to make up 66% and 69% managed GFA gain in 2021E/22E, respectively.

Figure 8: Managed and contracted GFA



Source: Company data, CMBIS estimates

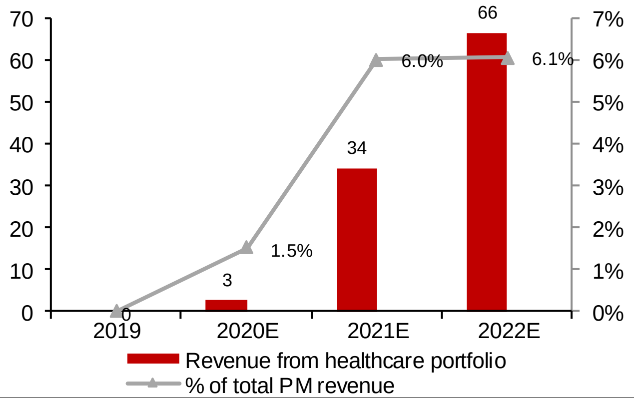
Figure 9: Geographical mix of managed GFA



Source: Company data, CMBIS

High-fee healthcare portfolio to be the future growth engine. Compared to other property managers, New Hope has a distinct advantage in healthcare projects with parent group providing visible pipeline. New Hope manages three healthcare venues, all of which belong to other New Hope Group subsidiaries. Furthermore, New Hope Group owns a hospital group which sets to deliver ~0.3mn sq m in 2021E/22E. As of 30 Sep 2020, monthly PM fees for healthcare venues was RMB19.5/sq m. If we assume 0.3mn sq m new delivery in 2021E/22E, this would generate additional ~RMB 30mn revenue each year, bringing total revenue from healthcare portfolio to RMB34mn/64mn, 6.0%/6.1% of total PM revenue of RMB568mn/1,093mn in 2021E/22E.

Figure 10: Contribution of healthcare portfolio to total PM revenue



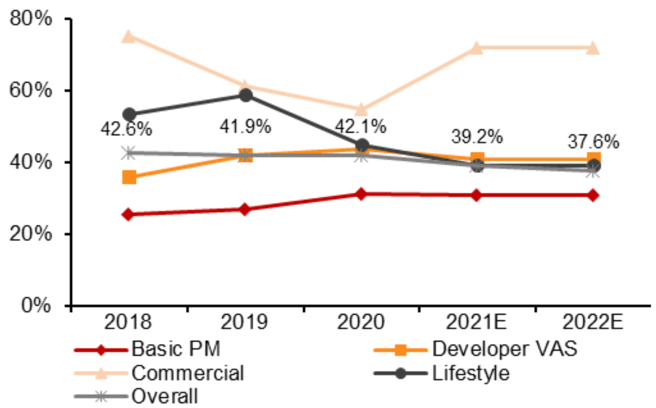
Source: Company data, CMBIS estimates

Commercial operations segment with steady pipeline and upside from rental growth. In 2020, New Hope entered into commercial operation contracts with eight projects (12 in total). 9M20 revenue in commercial operations grew by 40% to RMB77mn, and 9M20 gross margin for the commercial operations segment was 75%, up 17ppt YoY, thanks to the introduction of high-margin tenant management services which charged 10% of rental income as commission, higher than the industry average. Going forward, we expect 2-3 new commercial projects to be launched each year. Based on steady pipeline and rental expansion under bright macro outlook, we expect ~30% revenue growth YoY after 2020.

Booming VAS ecosystem supported by intra-group synergy. New Hope's VAS business greatly accelerated in 2020, recording RMB57mn in revenue as of 30 Sep, up 132% YoY. Retail and catering services was a major highlight, reaching RMB17mn in revenue (vs. RMB0.4mn in FY19). Compared to other PM companies, New Hope has an advantage in supply thanks to synergy with New Hope Group's other subsidiaries and could therefore scale more quickly and efficiently. Apart from online & offline retail business, carpark related services and marketing event organization services could also see growth. Looking ahead, we believe community VAS will continue to grow at 115% revenue CAGR in 2019-22E.

Higher margins than industry thanks to mgmt. fee and commercial segment. In 9M20, New Hope recorded overall gross margin of 44.9%, higher than industry avg. of ~30%. Gross margin for basic PM segment was 32%, higher than industry avg. of 20% for residential PM and 25% for commercial PM, thanks to 1) business concentration in tier 1-2 cities, which allows for above-average residential management fee, and 2) 70% GPM of commercial operations segment thanks to high rental take rate (10%). Going forward, we expect GPM to slightly drop to 37% in 2022E due to increased residential mix, but still higher than industry level.

Figure 11: Gross profit margin



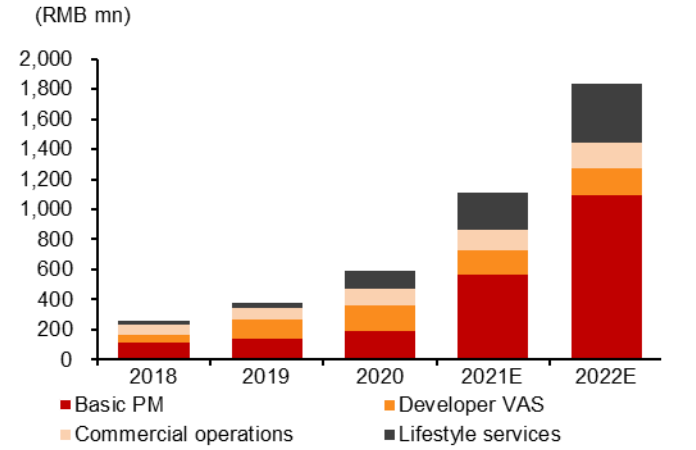
Source: Company data, CMBIS estimates

Financial analysis

Thanks to robust GFA growth and booming VAS, revenue is set to grow at 69% CAGR from RMB381mn in 2019 to RMB1,832mn in 2022E. We expect basic PM services and community VAS (lifestyle services) to be major growth drivers, and expect segment revenue CAGR of 98% and 115%, respectively, in 2019-22E.

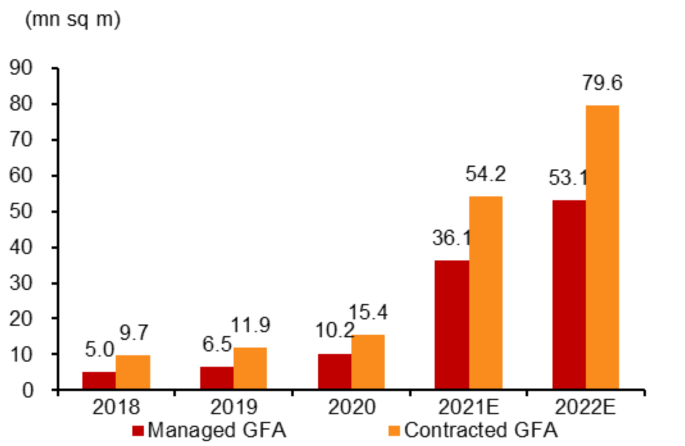
We expect a slight decline in GPM going forward due to increased revenue mix of basic PM services. We project overall gross margin to be 42.1%, 39.2% and 37.6% in 2020E/21E/22E, respectively. We expect SG&A expenses to grow proportionately per revenue as the Company expands into new geographic regions. At last, we expect net profit to grow by 67% CAGR in 2019-22E, in line with revenue growth.

Figure 12: Revenue



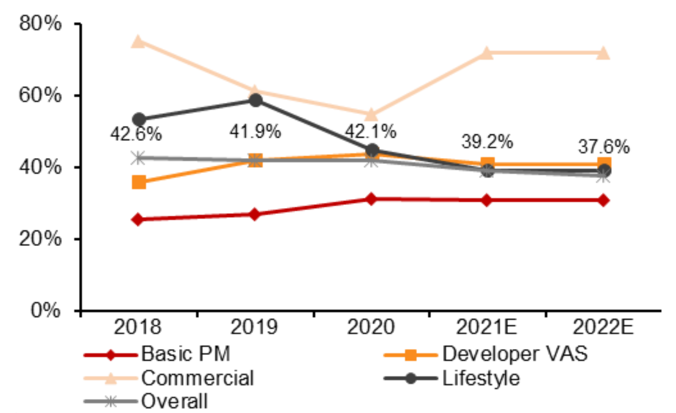
Source: Company data, CMBIS estimates

Figure 13: Managed and contracted GFA



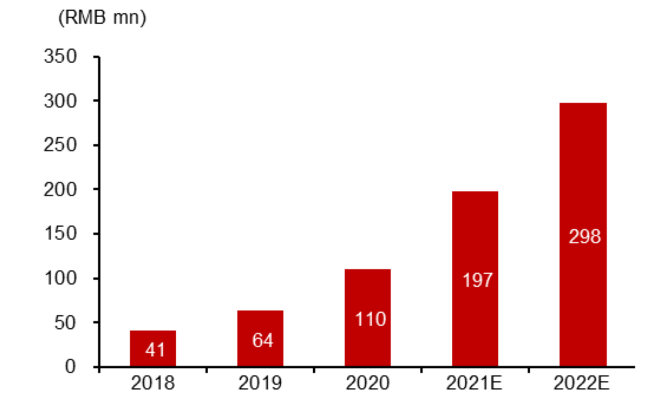
Source: Company data, CMBIS estimates

Figure 14: Gross profit margin



Source: Company data, CMBIS estimates

Figure 15: Net profit



Source: Company data, CMBIS estimates

Valuation

We value PM companies based on a scorecard system. There are six main categories as listed below:

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

We estimate net profit to be RMB298mn in 2022E. Using 10x 2022E P/E based on our scorecard ranking, and exchange rate RMB0.83=HK$1.00, we estimate target price of HK$4.41/share and initiate with Buy Rating.

Figure 16: Valuation scorecard

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

Source: CMBIS

Risk factors

In our view, the key risk factors are:

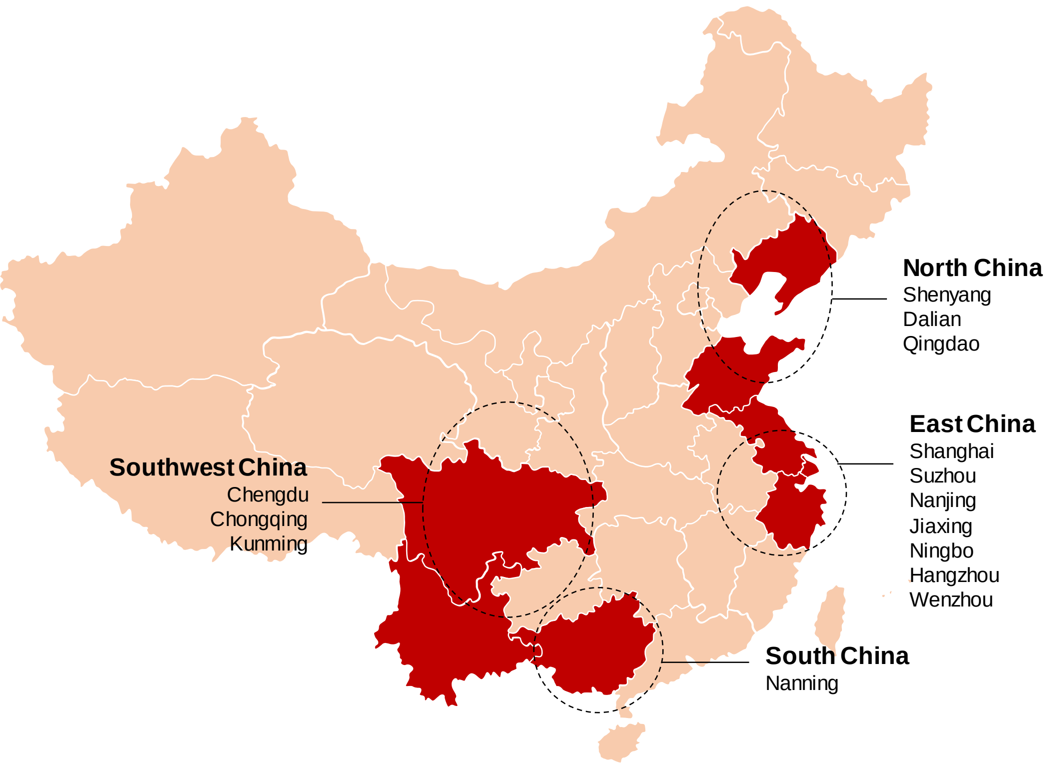
1) Reliance on property delivery from New Hope Group, joint ventures or associates of New Hope Group or associates of the ultimate controlling shareholders of New Hope;
2) Potential failure to secure new or renew existing PM contracts on favourable terms;
3) Potential failure in future M&A;
4) Potential adverse impact arising from business concentration in Southwestern China and Eastern China due to any adverse development in governmental policies or macro business environment;
5) Potential difficulty in fee collection;
6) Potential fluctuations on labour and subcontracting costs; and
7) The COVID-19 pandemic.

Company Overview

Founded in 2010, New Hope is a well-established property management company ranked 39th in 2020 Top 100 Property Management Companies in China by EH Consulting.

As of 30 Sep 2020, the Company managed 55 projects in 14 cities, with 7.8mn sq m total managed GFA. As of the same date, the Company had PM contracts for 89 projects, with contracted GFA of 14.7mn sq m. All of New Hope's property management projects are located in the first, new-first and second-tier cities in China.

Figure 17: Geographic distribution of PM projects



Source: Company data, CMBIS

Parent Group

New Hope Group – an industrial conglomerate with national renown

Founded in 1982 by famous private entrepreneur Mr. Liu Yonghao, New Hope Group is an industrial conglomerate with footprint in various industries, including food and FMCG, real estate, digital technologies, culture & tourism, healthcare, and finance. Some of its businesses have become listed, such as New Hope Liuhe Co., Ltd. (新希望六和股份有限公司) (000876.SZ) and New Hope Dairy Co., Ltd. (新希望乳业股份有限公司) (002946.SZ). As of 31 Dec 2019, New Hope Group's assets exceeded RMB200bn with sales revenue over RMB100bn. In Sep 2020, New Hope Group was ranked 27th in the List of Top 500 Chinese Private Enterprises in 2020 by the All-China Federation of Industry and Commerce (中华全国工商业联合会), highest among companies in China's agricultural sector. According to World Brand Lab, the brand value of "New Hope" amounted to RMB100.5 billion as of September 2020.

Strong synergy with the parent group

The Company is an important platform for New Hope Group to establish its presence in the consumer market, and forms strong synergy with the parent group in several ways. First and foremost, New Hope Group is the Company's major supplier. For example, New Hope subsidiaries such as Grass Green Group and New Hope Dairy Co., Ltd. are stable suppliers for a long time to provide products such as dairy, food, beverage, snacks and other FMCG. In addition, New Hope Group is an important source of diversified management business. The Company manages properties under several New Hope subsidiaries, including 1) brain hospitals under Shanghai Lansheng Brain Hospital Investment Corp. (上海蓝生脑科医院投资股份有限公司), 2) beauty clinics and wellness centers under Sichuan Xinwang Kanghua Healthcare Management Group Co., Ltd. (四川新望康华医疗管理集团有限公司), and 3) corporate buildings under Sichuan Xinwang Bank Co., Ltd. (四川新网银行股份有限公司).

New Hope Property Group – a fast-growing national top 50 developer

New Hope Property Group is a fast-growing property developer in China. According to CRIC, its contracted sales grew with 93.6% CAGR in 2017-2020 and reached RMB103.1bn in 2020, 50th among China property developers. As of 30 Sep 2020, New Hope Property Group provided 95% managed GFA and around 80% contracted GFA for the Company.

Figure 18: Cooperation between the Company and other New Hope subsidiaries

Source: Company data, CMBIS

Business

The Company generates revenue primarily from four business segments:

Property management services: New Hope provides basic PM services, such as cleaning, security, landscaping and maintenance, to residential, commercial and other types of non-residential properties such as hospitals and schools.

Value-added services to non-property owners: New Hope provides value-added services to non-property owners, including (i) sales office management services; (ii) preliminary planning and design consultancy, pre-delivery and repair and maintenance services; and (iii) other services such as construction site management services;

Commercial Operational Services: New Hope provides commercial operational services for 12 projects in Chengdu, Kunming, Shanghai, Wenzhou and Nanning. Services include (i) market research and positioning and opening preparation services; (ii) commercial operation services, such as tenant sourcing services, tenant management services, commercial management services and marketing and promotion services; and (ii) commercial leasing.

Lifestyle Services: New Hope provides (i) community living services, including turnkey furnishing, repair and maintenance, convenient living services and common area management; (ii) community asset management services, including carpark related services and property agency; (iii) retail and catering services; (iv) marketing event organization services; and (v) community space operational services.

Investment thesis

Managed GFA to grow by 101% CAGR in 2019-22E backed by 71% parentco sales CAGR in 2017-20 and improving third-party expansion

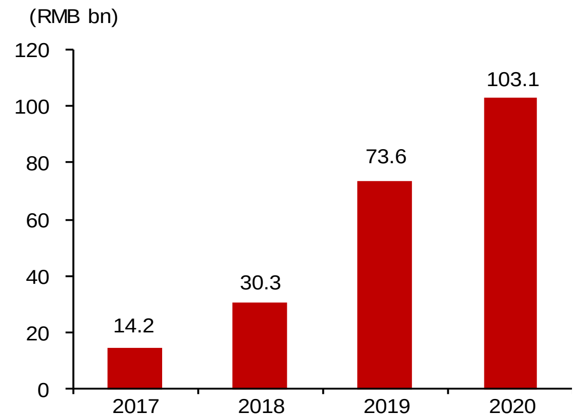
Parentco's sales surge to show in future GFA delivery. We expect New Hope's residential GFA to receive strong support from the Parent Group due to its sales surge in recent years, growing from RMB14bn in 2017 to RMB 103bn in 2020 at a three-year CAGR of 93.6% and breaking into the national Top 50 in this period. Total land bank grew around six times from 1.8mn sq m in YE2016 to 10.6mn sq m by YE2019. According to CIA, New Hope Group's land gain spending grew from 17.8bn in 2017 to 31.9bn in 2019, which ranks 28th among developers. Although New Hope Group's attributable sales ratio is quite low at ~50%, the Group has stressed the importance of gaining management rights for its PM subsidiary, and currently New Hope manages around 80% of parentco's joint projects.

Parentco sales are usually delivered as managed GFA within two years of the sales date. Based on historical sales we expect delivery from parentco to increase to 3.3mn sq m/4.1mn sq m in 2021E/22E.

Likely improvements in third-party gain and M&A. As of 30 Sep 2020, GFA from third party (excluding M&A) made up only 5% of total managed GFA. However, we expect improvements in the future as New Hope Group continues to expand geographically and gain connections in new regions. We also expect geographic expansion and growth of the New Hope brand to facilitate M&A opportunities. We forecast third-party bidding and M&A to make up 67%/69% managed GFA gain in 2021E/22E.

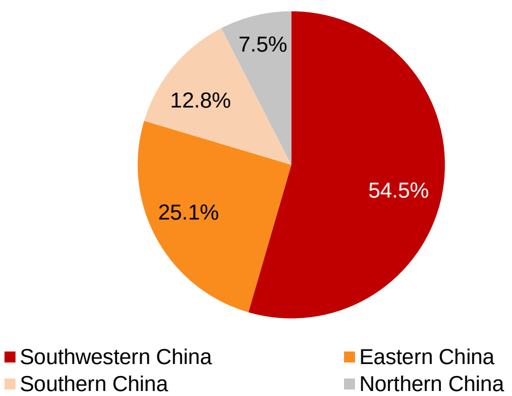
Overall, we expect managed GFA to grow by 101% CAGR in 2019-22E and reach 36/53mn sq m in 2021E/22E.

Figure 19: New Hope Group's contract sales, 2017-2020



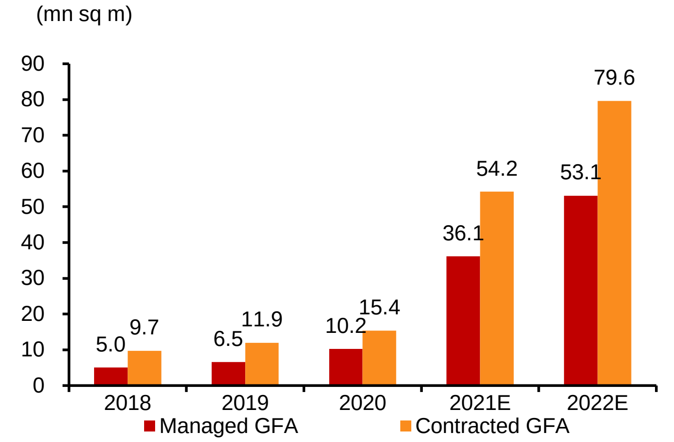
Source: CRIC, CMBIS

Figure 20: Geographical mix of managed GFA as of 30 Sep 2020



Source: Company data, CMBIS

Figure 21: Managed and contracted GFA



Source: Company data, CMBIS estimates

High-fee healthcare venues to be the future growth engine

Hospital and healthcare portfolio in parentco pipeline. Compared to other property managers, New Hope has a distinct advantage in healthcare projects with parent group providing visible pipeline. Currently New Hope manages three healthcare venues, all of which belong to other New Hope subsidiaries: Lansheng Brain Hospital (蓝生脑科医院), Newme Medical Beauty Hospital (新丽美医疗美容医院) and Sohome Health Management Center (晓康之家健康管理中心). Furthermore, New Hope Group owns a hospital group in Shanghai Lansheng Brain Hospital Investment Co. Ltd (上海蓝生脑科医院投资股份有限公司) with five hospitals completed and two under construction, expected to deliver ~0.3mn sq m in 2021E/22E.

High PM fees of healthcare venues could drive revenue. New Hope's healthcare PM business only started in 2020, taking up est. 2% of total PM revenue for the year. However, due to high mgmt. fees, it has the potential to grow quickly upon project delivery, and become a revenue driver. As of 30 Sep 2020, monthly PM fees for healthcare venues was RMB19.5/sq m due to the high-end nature (wellness center, beauty clinic) of New Hope's healthcare projects. If we assume 0.3mn sq m new delivery in 2021/22, this would generate ~RMB 30mn additional PM revenue each year, bringing total revenue from healthcare portfolio to RMB34mn/64mn, 6.0%/6.1% of total PM revenue of RMB568mn/1,093mn in 2021E/22E.

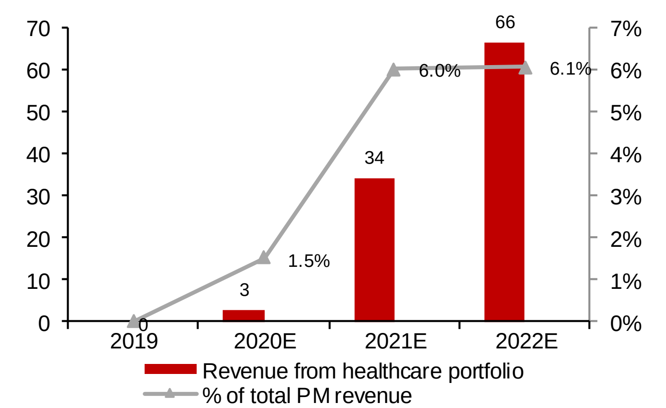
Figure 22: Newme Medical Beauty Hospital

Source: Company data, CMBIS

Figure 23: Sohome Health Management Center

Source: Company data, CMBIS

Figure 24: Contribution of healthcare portfolio to total PM revenue



Source: Company data, CMBIS estimates

Commercial operations segment with steady pipeline and upside from rental growth

In 2020, New Hope entered into commercial operation contracts with eight projects (12 in total), most of which are shopping streets or high-tech parks. The Company adopts a similar revenue model to mall operators, and provides 1) **pre-opening services** such as tenant sourcing and opening preparation, for a fixed fee; 2) **operation services** to vendor tenants and charges 10% commission based on rental income; 3) **subleasing services** for certain commercial properties for rental income.

In 9M20 revenue in commercial operations grew by 40% to RMB77mn thanks to new openings. 9M20 gross margin for the commercial operations segment was 75%, up 17ppt YoY, thanks to the introduction of high-margin tenant management services, and the overall low labour-intensiveness of the segment. We expect segment gross margin to drop slightly due to end of COVID-19 relief measures, but stabilize at 70-72%.

Going forward, we expect the Company to open 2-3 new commercial projects per year, and existing projects to scale on continued rental growth. Based on a steady pipeline and rental expansion under bright macro outlook, we expect ~30% revenue growth YoY after 2020.

Figure 25: New Hope's commercial projects

Project	Category	City	Occupancy rate a/o 30 Sep 2020 (%)
Kunming Dashanghui (昆明大商汇)	Specialty markets	Kunming	86.1
New Hope International (新希望国际)	Office buildings/Shopping streets	Chengdu	98.5
Bailuli (白麓里)	Shopping streets	Wenzhou	94.8
Nanning International Jiaju Expo Center (南宁国际家居博览中心)	Specialty markets	Nanning	79.5
Zhongding International (中鼎国际)	Office buildings	Chengdu	100.0
New Hope Building (新希望大厦)	Office buildings/Shopping streets	Chengdu	100.0
Shangding International (商鼎国际)	Shopping streets	Chengdu	83.2
Huangguan International (皇冠国际)	Shopping streets	Chengdu	77.7
Liti City Shopping Center (立体城购物中心)	Shopping centers	Wenzhou	89.9
Kunming Xiwanghui (昆明希望汇)	Shopping streets	Kunming	86.6
Landscape Park (半岛科技园)	Industrial park	Shanghai	87.9
JingguanXiu City (锦官秀城)	Shopping streets	Chengdu	95.0

Source: Company data, CMBIS

Figure 26: Kunming Dashanghui

Source: Company data, CMBIS

Figure 27: Shanghai Zhangjiang High-tech Park

Source: Company data, CMBIS

Booming VAS ecosystem supported by intra-group synergy

New Hope's VAS business greatly accelerated in 2020, recording RMB57mn in revenue as of 30 Sep, up 132% YoY. Retail and catering services was a major highlight, reaching RMB17mn in revenue (vs. RMB0.4mn in FY19).

Compared to other PM companies, New Hope has an advantage in supply thanks to synergy with New Hope Group's other subsidiaries such as New Hope Liuhe Co., Ltd. (新希望六和股份有限公司, specializing in farm products) and New Hope Dairy Co., (新希望乳业股份有限公司, specializing in dairy products). The Company also plans to make use of the large customer base in other New Hope subsidiaries, by operating canteens and providing catering services for them. Thanks to strong supply and solid customer base, we expect New Hope's retail and catering business to scale in a quick and cost-efficient manner.

Apart from retail and catering, growth in VAS would come from carpark agency services and offline event organization for other property developers. Looking ahead, we believe community VAS will continue to grow at 115% revenue CAGR in 2019-22E.

Above-industry margins thanks to high mgmt. fee and commercial segment

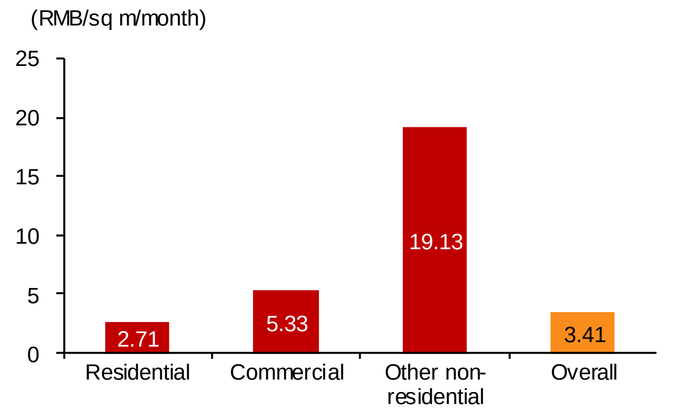
In 9M20, New Hope recorded overall gross margin of 44.9% (46.2% if excluding developer VAS), higher than industry average of ~30%. Gross margin for basic PM segment was 32%, higher than industry avg. of 20% for residential PM and 25% for commercial PM, thanks to the following factors:

1) Business concentration in tier 1-2 cities allows for above-average residential management fee. Based on CRIC data, ASP for New Hope Group was RMB19,000/RMB21,400 in 2019/20 vs. avg for top 50 developers RMB13,400/RMB13,700, thanks to the Group's business concentration in tier 1-2 cities and focus on mid-to-high end residential projects. As a result, New New Hope's monthly residential ASP was RMB2.71/sq m vs. industry average RMB2.1/sq m (according to CIA) as of 30 Sep 2020.

2) Higher margins of commercial PM and operations. As of 30 Sep 2020, 36% of basic PM revenue, or RMB46.6mn, came from commercial properties. As a commercial management player, New Hope has access to commercial operations services with 70% GPM in 2020E, higher than 60% of CR Mixc Lifestyle (1209 HK) in 9M20 due to different revenue models for operations services (New Hope: 10% commissions on rental income, vs. CR Life: 5% rental + 10% EBITDA).

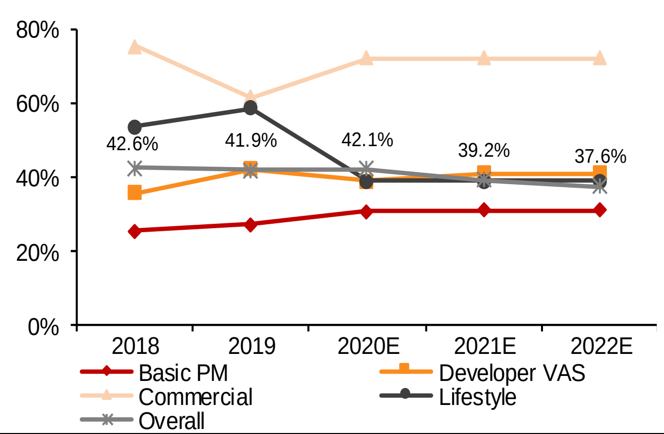
We expect slight decline in GPM due to 1) change in revenue mix with higher ratio for basic PM services; 2) margin dilution from new third-party projects; and 3) end of COVID-19 related fee exemptions. We forecast 37% GPM by 2022E, still higher than industry level.

Figure 28: New Hope's PM ASP



Source: Company data, CMBIS

Figure 29: Gross profit margin



Source: Company data, CMBIS estimates

Competitive Advantages

A high-quality and fast-growing lifestyle service operator

The Company is a well-established lifestyle service operator in China, providing property management services, value-added services to non-property owners, commercial operational services and lifestyle services. The Company originated from the Chengdu-Chongqing urban agglomeration and focuses on metropolitan areas and urban agglomerations in China, in particular the Chengdu-Chongqing urban agglomeration and the Eastern China region. The Company focuses on providing management services to properties in the first-tier, new first-tier and second-tier cities in these areas. According to Savills and EH Consulting, the Chengdu Chongqing urban agglomeration is the engine of economic development in Southwest China, and its nominal GDP reached RMB 6,506.6bn in 2019, accounting for approximately 6.6% of China's nominal GDP. Eastern China region's nominal GDP reached RMB 35,071.5bn in 2019, accounting for approximately 35.5% of China's nominal GDP. As of 30 Sep 2020, 36.5% and 25.1% of the Company's GFA under management were located in the Chengdu Chongqing urban agglomeration and the Eastern China region, respectively, and 32.3% and 39.4% of the Company's contracted GFA were located in these two regions as of the same time, respectively. New Hope Property Group focuses on developing properties in the new first-tier and core second-tier cities. Through New Hope Property Group, the Company has been able to build a portfolio of middle to high-end properties under management with good revenue streams. The Company managed almost all of the properties developed by New Hope Property Group. According to Savills and EH Consulting, in 2019, the average selling price for the contracted sales of the properties developed by New Hope Property Group ranked 11th among the Top 100 Real Estate Enterprises in China. According to Savills and EH Consulting, the Company's revenue per sq m was RMB 58.23 per sq m in 2019, ranked eighth among the Top 100 Property Management Companies in China in terms of Overall Strength and was awarded the 2020 Top Ten Property Management Companies in China in terms of Revenue Generating Capacity per Square Meter (2020年中国物业管理企业单坪创收十强) by EH Consulting. During the same period, the Company's monthly average property management fee was RMB 3.69 per sq m. According to Savills and EH Consulting, the properties under the Company's management are mainly in the middle and high-end categories for the Chinese real estate industry, in terms of their average selling price for contracted sales.

The Company achieved rapid growth. As of 30 Sep 2020, the property projects served by the Company covered 14 cities in six provinces, one autonomous region and two municipalities in China, and all of the Company's property management projects are located in the first-tier, new first-tier and second-tier cities of China. As of 30 Sep 2020, the Company's total contracted GFA amounted to 14.7mn sq m, including a pipeline of 6.7mn sq m of undelivered residential properties and 0.2mn sq m of undelivered commercial properties, which are expected to be delivered to the Company for its management in the next two years. During the last quarter in 2020, the Company's GFA under management increased by 31.3%. The Company's total GFA under management increased to 10.3mn sq m. The Company's revenue increased by 47.5% from RMB 258.0mn in 2018 to RMB 380.5mn in 2019. The Company's net profit increased by 55.7% from RMB 41.1mn in 2018 to RMB 64.0mn during the same year. In recognition of its rapid growth, the Company was named one of the Top 100 Leading Property Management Companies in terms of Growth Potential in China (中国物业服务百强成长性领先企业) by CIA in 2019.

Over the years, the Company has won a number of awards from well-known industry organizations. The Company has been named one of the Top 100 Property Management Companies in China in terms of Overall Strength (中国物业企业综合实力百强) by EH Consulting for five consecutive years. The Company's ranking improved from 55th in 2016 to 39th in 2020. At the same time, the Company has been recognized as one of 2020 Top 50 Model Chinese Property Management Companies for Customer Satisfaction

(2020 中国物业企业客户满意度模范企业 50 强) and 2019 Golden Key China's Excellent Service Team (2019 年中国服务示范企业—中国金钥匙奖) for the Company's service quality and pursuit of customer satisfaction and 2020 Leading Chinese Brand Company in Professional Property Service Operation (2020 中国物业服务专业运营领先品牌) for the Company's brand awareness.

Diversified and high quality portfolio of properties under management

The Company has a high-quality portfolio of properties under management. The Company is committed to raising its competitiveness in residential property management by continuously increasing its business scale and improving its service quality. As of 30 Sep 2020, the Company had 33 residential projects under management, with a total GFA under management of 5.3mn sq m. In addition to residential buildings, the Company also manages commercial properties such as shopping malls, shopping streets, specialized markets, office buildings and industrial parks, as well as other types of non-residential properties, such as public facilities, corporate buildings, cultural and tourist sites, and medical facilities. The Company believes its high service quality has contributed to its high collection rates of property management fees.

Additionally, the Company provides commercial operational services for 12 quality commercial properties in five cities, namely Chengdu, Kunming, Shanghai, Wenzhou and Nanning. As of 31 Dec 2018 and 2019 and 30 Sep 2020, the occupancy rates of the operating commercial properties under the Company's management were 90.5%, 90.2% and 89.5%, respectively, and the collection rates of service fees for the Company's commercial management services were 100%, 98.0% and 92.3%, respectively.

Among the Company's commercial operation projects, Kunming Dashanghui and Zhangjiang Hi-Tech Park are the Company's landmark projects. As of 31 Dec 2019, Kunming Dashanghui is a benchmark commercial property well-known in Yunnan province, according to Savills and EH Consulting. Located in the core area of Zhangjiang Science City in Shanghai, Zhangjiang Hi-Tech Park is mainly comprised of small and detached office buildings in a low-density garden style. It has attracted a number of famous companies, including Fortune 500 enterprises, in, among other fields, information technology, e-commerce, and biological medicine.

The Company is supported by a team of professional employees covering the entire value chain in the property management and commercial operation industry. These valuable staff have accumulated valuable operational experience about the whole project life cycle of property management and commercial operation, and the Company believes they will allow the Company to seize opportunities and continue to grow.

A wide range of lifestyle services based on customers' needs

In addition to high-quality property management services, value-added services to non-property owners and commercial operational services, the Company provides a wide range of lifestyle services based on customers' needs for food, housing, goods and services. The Company takes a comprehensive view of the needs of businesses, customers, merchants and relevant local government organizations and seeks to design an ecosystem where everyone's goals are met.

Specifically, the Company's lifestyle services include community living services, community asset management services, online and offline retail services and catering services, marketing event organization services and community space operation services. The Company's lifestyle services are supported by its comprehensive management system comprising, among other things, online platforms for customers, supply chain management of products and services, product delivery and door-to-door services. The Company believes such a comprehensive management system also allows it to quickly introduce new types of products and services which will further diversify its lifestyle service offerings.

The Company believes that diversified and innovative services will enhance customer satisfaction and loyalty, improve its profitability, and help it diversify revenue sources, such as by expanding its customer base beyond property owners and residents of communities under its management, to include residents living in surrounding neighborhoods and others. The Company's revenue from lifestyle services experienced a rapid growth, increasing by 37.5% from RMB 28.3mn in 2018 to RMB 38.9mn in 2019, and by 131.6% from RMB 24.7mn for the nine months ended 30 Sep 2019 to RMB 57.2mn for the nine months ended 30 Sep 2020.

Strong support from New Hope Group

The Company cooperates with, and receives strong support from New Hope Group, a comprehensive industrial conglomerate with a vision to create better lives for consumers. It has established its footprint in a variety of industries, including food and fast moving consumer goods, real estate, digital technologies and culture and tourism, medical and healthcare and finance and investment. Some of its businesses have become listed, such as New Hope Liuhe Co., Ltd. (新希望六和股份有限公司) (000876.SZ) and New Hope Dairy Co., Ltd. (新希望乳业股份有限公司) (002946.SZ). As of 31 Dec 2019, New Hope Group's assets exceeded RMB 200bn with sales revenue over RMB 100bn in 2019. In Sep 2020, New Hope Group Company was ranked 27th in the List of Top 500 Chinese Private Enterprises in 2020 by the All-China Federation of Industry and Commerce (中华全国工商业联合会), the highest ranking among companies in China's agricultural sector and among private enterprises headquartered in Sichuan province. According to the ranking of World Brand Lab, the brand value of "New Hope" amounted to RMB 100.5bn as of September 2020.

The Company managed almost all of the properties developed by New Hope Property Group. New Hope Property Group is a leading property developer in China. In 2020, it ranked 39th among the Top 100 Real Estate Enterprises in China in terms of Overall Strength according to Savills and EH Consulting. Its growth rate in terms of contracted sales in 2019 ranked first among the Top 40 Real Estate Enterprises in China according to Savills and EH Consulting. The Company's business scale also expanded with the growth of New Hope Property Group. As of 30 Sep 2020, its total contracted GFA amounted to 14.7mn sq m.

The Company is an important platform for New Hope Group to establish its presence in the consumer market. The Company also benefits from its long-term and stable relationship with other companies in the New Hope Group, which supply goods to enrich the products the Company offers to its customers or help diversify the types of properties the Company manages. For example, companies under New Hope Group, such as Grass Green Group and New Hope Dairy Co., Ltd. are its stable suppliers for a long time to provide products such as diary, food, beverage, snacks and other fast moving consumer goods. In addition, the Company established business relationship with several companies under New Hope Group. For example, the Company signed a strategic cooperation agreement with Shanghai Lansheng Brain Hospital Investment Corp. (上海蓝生脑科医院投资股份有限公 司), a company headquartered in Shanghai that operates brain hospitals, to provide property management and logistics services for its hospital portfolio. The Company also signed a strategic cooperation agreement with Sichuan Xinwang Kanghua Healthcare Management Group Co., Ltd. (四川新望康华医疗管理集团有限公司) to provide property management services for the beauty hospitals and medical examination centers operated by its subsidiaries. In addition, the Company provides property management services for the corporate buildings of Sichuan Xinwang Bank Co., Ltd. (四川新网银行股份有限公司), an Internet bank based in Chengdu.

Smart information system enhancing operational efficiency

The Company attaches great importance to the enabling role technology can play in its industry, and firmly believes that through the continuous development of its informatization, digitization and intelligence capabilities, the Company can achieve lean management and provide high quality services to its customers' satisfaction while achieving cost economies.

The Company has an online smart service system to link its service platform, butlers and service offerings to enhance its operation efficiency. The Company also implemented the Modern Leisure Lifestyle (漫生活) mobile application which assists it in providing quality property management services and comprehensive lifestyle services. The Modern Leisure Lifestyle (漫生活) mobile application, together with its other information technologies such as an intelligent cloud system for management of parking spaces and an efficient and secure facial recognition system, helps it deliver property management services such as online service requests, payment of property management fees and parking charges, door access control, customer complaints and feedback, community announcements. They also allow the Company to deliver lifestyle services such as community activities, online shopping, delivery service, housekeeping service, repair and maintenance service, and pet services.

The Company has a back-office monitoring system to monitor the performance of, and facilitate the maintenance of, its equipment and facilities. The LCM system supports full life cycle management of facilities and equipment, by assigning a unique identification code to each piece of equipment and facility and maintaining online inspection and maintenance plan and maintenance records, helping the Company improve the service life of equipment and reduce the cost of equipment maintenance. The RMA system conducts automatic monitoring on the Company's equipment, provides real-time early warning of malfunctions, and automatically assigns work orders to improve the maintenance efficiency, which ensures the safe operation of its facilities and equipment. The centralized control system with 24-hour real-time surveillance capabilities helps the Company achieve online real-time monitoring of key areas in the communities under its management and serves as an effective tool for quality assurance. By integrating data from different front-end applications and online platforms, its internal systems such as the ERP, CRM, smart carpark management, LCM, RMA, and centralized control systems help the Company manage and operate its business. The Company's employees can access to such management systems through mobile devices to further increase its operation efficiency.

The Company believes its information technology platform enables it to improve operational efficiency and reduce operating costs. The development of its informatization, digitization and intelligence capabilities contributed to the increase in its revenue per employee from approximately RMB 146,988 in 2018 to approximately RMB 178,324 in 2019.

An excellent and inter-disciplinary team of talent

The Company regards employees as one of its most important resources. In order to implement its market positioning as a "lifestyle service operator," the Company brings in cross-industry, highly educated and passionate young talent at all levels of its Group. As of 30 Sep 2020, the average age of the Company's employees was 31 years old. The Company believes that the passionate and creative management team led by experienced senior management members can achieve its strategic objectives. The senior management team and core management, including Ms. Chen Jing, Executive Director and chief executive officer, came from a wide range of industries such as property management, real estate, commerce, finance, and have an average industry experience of over 10 years. They have jointly promoted the Company's rapid growth in the past few years, and will continue to bring momentum to the Company's business innovation and high-quality growth. Meanwhile, the Company has a team of project managers with rich experience and sharing its cultural characteristics. As of 30 Sep 2020, most of the Company's project managers had five years or more experience in property management, commercial operation or other lifestyle service industries. In respect of employees at the butler level, the Company applies unified selection criteria and also provides systematic training to its employees through various training programs at the New Hope Service Academy. As of 30 Sep 2020, 70% of the Company's butlers held a junior college or higher degree.

Striving to achieve is the basis of the Company's corporate culture. The Company encourages employees to set ambitious goals for their own career growth. Happiness is another important feature of the Company's corporate culture. The Company advocates "everyone serving everyone (所有人服务每个人)", and places a high priority on caring for its employees and recognizing their value. The Company believes happier employees are more motivated to serve customers well, which in turn could lead to higher customer satisfaction and business growth.

Business Strategies

Continue to expand in the metropolitan areas and urban agglomerations in China

The Company plans to further expand its business in the metropolitan areas and urban agglomerations in China, especially the first-tier, new first-tier and second-tier cities in the Chengdu-Chongqing urban agglomeration and the Eastern China region, and continue to consolidate its market position in these areas. The Company also plans to penetrate new markets with growth potential. To achieve its expansion, the Company expects to continue to grow with the New Hope Property Group and will seek new business opportunities brought by the expansion of New Hope Property Group's business presence. The Company also plans to actively seek opportunities to manage properties developed by independent third-party property developers through participating in tendering processes and through strategic acquisition and investment. In particular, leveraging its experience in managing medical beauty clinics, general hospitals and medical examination and rehabilitation facilities, the Company may seek opportunities to manage more medical facilities, which it believes may have a relatively high potential of profitability. Moreover, the Company aims to manage more non-residential properties, such as metro hubs, to further diversify its portfolio of properties under management.

The Company plans to grow its business by organic growth as well as making acquisitions and investments in companies that suit its business strategies. The Company expects to acquire and invest in other property management companies that manage residential properties and nonresidential properties such as office buildings, commercial complexes, and healthcare and education facilities. The Company also expects to prioritize property management companies located in cities or areas where it already have a presence in order to optimize management efficiency and facilitate the sharing of resources.

Continue to enhance lifestyle services

By focusing on the residents' desire for a better life, the Company plans to focus on further developing its lifestyle services, including turnkey furnishing services, convenient living services, community asset management services, online and offline retail services and catering services, marketing event organization services and community space operational services. The Company will continue to strengthen cooperation with New Hope Group to make full use of its diverse industry coverage and rich resources to expand the Company's lifestyle services. For example, based on its understanding of the customers' demands, the Company plans to explore the product supplies available from New Hope Liuhe Co., Ltd. (新希望六和股份有限公司), New Hope Dairy Co., (新希望乳业股份有限公司) and diversify its product offerings for its online and offline retail services and catering services and create diversified product assortment for its customers. The Company also plans to enhance cooperation with companies under the New Hope Group, for example, to operate canteens and provide catering services for them. The Company will continue to increase the scale and offerings of its lifestyle services through organic growth and external expansion and enhance the overall living experience of its property owners and residents.

In addition, based on the Company's national service layout, as well as its successful experience in developing new services offerings in the past, the Company will continue to develop new lifestyle service businesses. As part of this effort, the Company will explore opportunities to build competitive lifestyle businesses that can provide services to customers beyond its existing customer group, such as residents living in surrounding neighborhoods or other business customers in a variety of industries. The Company will also look for strategic acquisition and investment opportunities to help it continuously provide competitive lifestyle services for its consumers.

Continue to increase investments in technologies

The Company will continue to invest in technologies to improve its services to meet the evolving needs of customers, to build the community ecosystem, and to improve its operating efficiency. The Company expects to focus on the following three directions: customer service, lean management, and business development.

Customer service. The Company plans to upgrade the lifestyle service platform and other digital platforms, improve the coverage of intelligent hardware, and accelerate the development of a big data system, in an effort to further improve its service quality, enhance the customer experience and improve customer satisfaction. The Company plans to upgrade its lifestyle service platform to integrate a wider range of services, and use data analysis to help improve its service offering and service quality. The Company will increase investment in technologies and expand their coverage in more projects under its management. The Company plans to provide customers with more intelligent and more secure technologies covering traffic control, security protection, environmental protection, and living scenarios.

Lean management. The Company plans to upgrade its information technology platforms to improve operating efficiency. The Company plans to build and optimize its smart management system to manage its resources effectively and to provide data analysis to support decision-making. The Company will focus on the development and optimization of the systems and platforms related to its intelligent IoT system, centralized control of equipment and facilities, as well as intelligent equipment and hardware, and plans to integrate those systems with the smart management system to achieve equipment automatic inspection, malfunction early warning, centralized work order assignment, work order tracking, and work order result evaluation and analysis. The Company believes these measures will help further improve operational efficiency and reduce labour cost.

Business development. The Company plans to integrate business lines such as property management services, community space operation, commercial operational services, community living services onto a lifestyle service platform, backed by a single centralized background operation system and featuring a unified customer portal. The Company believes this will help it integrate its service offerings and allow its customers to browse and choose all of the service offerings made available to them. The Company plans to consolidate commercial resources in the community micro-ecosystem, and enhance merchants' capabilities in customer outreach. The Company plans to extend the coverage of its lifestyle service platform from the communities under its management to businesses within the five-kilometer surrounding area of properties under its management, to serve customers outside the communities under its management and achieve further growth.

Improve the operational efficiency of commercial operational services

The Company plans to continue to increase its business scale and strengthen its brands in the area of its commercial operational services. The Company expects to pursue its plan building on its diverse experiences in commercial operational services, gained from operating multiple full-scale commercial properties in multiple cities, and its capacity to expand based on its existing service networks.

The Company plans to standardize its management mechanism and streamline its operation management mechanism for its commercial operational services. The Company plans to establish operation standardization protocols and management systems for the purpose of energy conservation and standardization of business operation, and the Company also plans to streamline its internal workflows to increase its operation efficiency. In addition, the Company aims to optimize its income structure from commercial operational services. For example, the Company expects to effectively use its operational spaces, such as parking spaces and advertising spaces. The Company also expects to monetize the customer traffic that it creates for the commercial properties to increase revenue generated from other various services that the Company may provide to businesses.

The Company plans to develop community commercial services and build a "15-minute living circle" around the communities the Company manages through community commercial complexes, neighborhood centers and community commercial streets, to address residents' daily needs. The Company will build a three-dimensional interactive service package for its community commercial services centering on the consumer demands, daily life necessity and spiritual needs and bring a "4+X" combination of community businesses. The "4" stands for the Company's four main types of community businesses, including premium supermarkets, living amenities, parenting and children facilities and dining and entertainment venues. The "X" stands for the additional service offerings the Company will continuously adjust and upgrade according to the residents' constantly evolving living needs. The Company intends to combine local resources, cultural brands and lifestyle services industries to constantly expand the cooperation network, and upgrade the community businesses that it brings in to its community business operation. By doing so the Company hopes to create new community commerce business lines and build the consumer centers, life centers and social centers for its customers, all with a long-term goal of building flagship community business projects and becoming a leader in community commerce in China.

Continue to improve human resources system

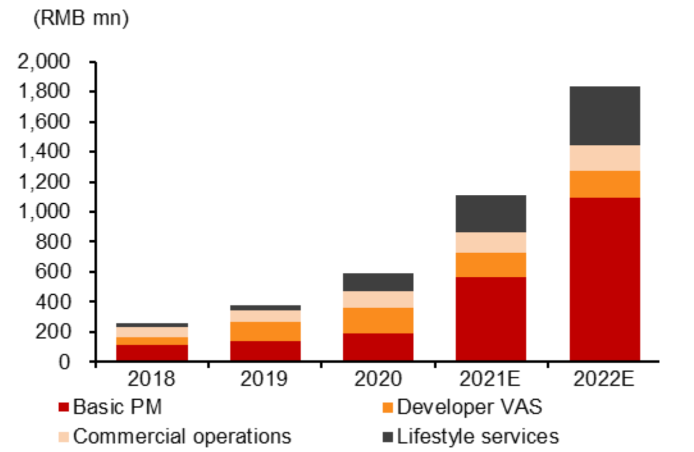
The Company will continue to strengthen its corporate culture of "happiness and striving to achieve" by taking "service creates value" as its driving spirit. With a view to supporting the development of its services, the Company will continue to optimize its organizational system to enable timely responses to changes in markets and customer demand. The Company plans to establish a comprehensive compensation and incentive system to further promote employees' contribution and career development. In addition to the existing performance bonus and other incentives and rewards, the Company plans to formulate more effective incentive policies tailored for different business lines and key positions, and lead the team to drive business growth based on customer demand. The Company plans to upgrade New Hope Service Academy's online and offline training programs to continue to improve its talent training system. The Company also plans to seek to attract talents with diversified backgrounds to join, thereby helping meet the demand for quality employees to support its rapid business development.

Financial Analysis

Revenue to grow at 69% CAGR in 2019-22E

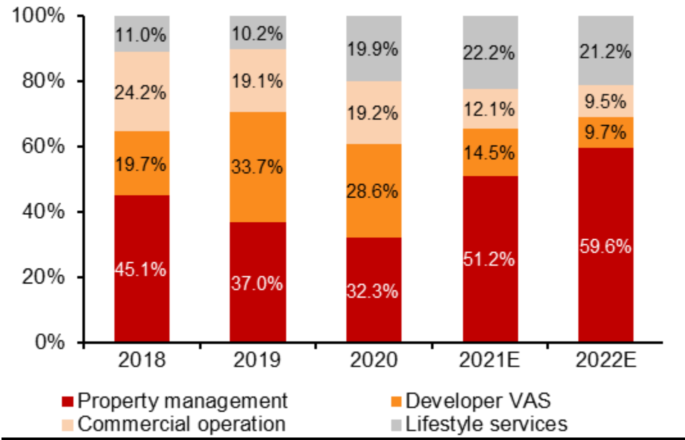
Thanks to robust GFA growth and booming VAS, revenue is set to grow at 69% CAGR from RMB381mn in 2019 to RMB1,832mn in 2022E. We expect basic PM services and community VAS (lifestyle services) to be major growth drivers, and expect segment revenue CAGR of 98% and 115%, respectively, in 2019-22E. We expect commercial operations to grow at 34.1% CAGR with a steady pipeline, while developer VAS would record low growth and be gradually phased out.

Figure 30: Revenue



Source: Company data, CMBIS estimates

Figure 31: Revenue mix

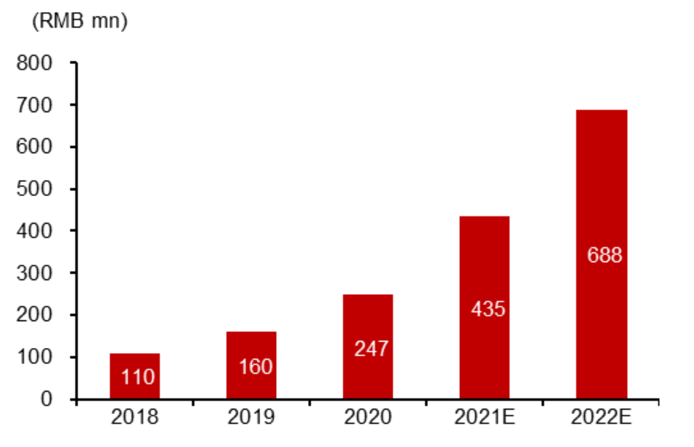


Source: Company data, CMBIS estimates

Gross profit to decline slightly due to change in revenue mix

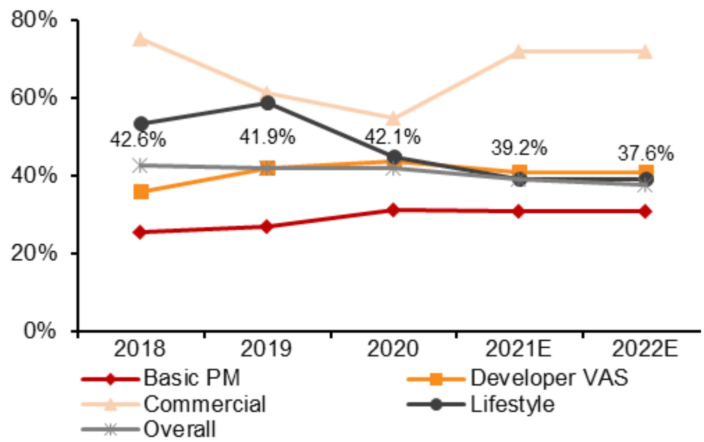
Gross profit was RMB160mn and RMB381mn in 2018 and 2019, while the corresponding gross margin was 42.6% and 41.9%, respectively. Going forward, we expect a slight decline in GPM due to increased revenue mix of basic PM services. We project overall gross margin to be 42.1%, 39.2% and 37.6% in 2020E/21E/22E, respectively.

Figure 32: Gross profit



Source: Company data, CMBIS estimates

Figure 33: Segment gross margin



Source: Company data, CMBIS estimates

SG&A expenses

Selling, General and Administrative (SG&A) expenses increased from RMB56mn in 2018 to RMB85mn in 2019. The rise in SG&A expenses was in line with the Company expansion into new geographic regions. SG&A expenses to revenue ratio was 21.9% and 22.5% in 2018 and 2019, respectively. We expect SG&A expenses to grow with 56.8% CAGR in 2019-22E, due to better scale economy resulting from GFA expansion.

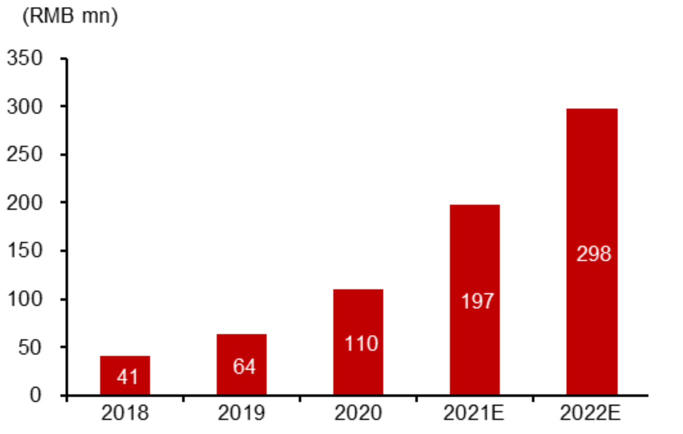
Estimated net profit attributable to shareholders to grow at 67% CAGR in 2019-22E

Net attributable profit amounted to RMB41mn/64mn in 2018-19, respectively. The corresponding net profit margin (attributed to shareholders) was 15.2%/16.8%, respectively. Going forward, we expect net profit to increase by 67% CAGR in 2019-22E, in line with revenue growth, to RMB298mn in 2022.

Strong operating cash flow to support potential M&As

The Company experienced positive operating cash flow of RMB59mn in 2018 and RMB113mn in 2019, respectively, and we expect CFO to increase to RMB227mn by 2022. Cash on hand was RMB49mn in 2019, which we expect to reach RMB1,364mn by 2022. We believe the Company's cash level is able to support potential M&As of single non-residential projects and further boost scale.

Figure 34: Net profit attributable to shareholders



Source: Company data, CMBIS estimates

Financial Statements

Income statement

Income statement					
YE Dec 31 (Rmb mn)	**FY18A**	**FY19A**	**FY20A**	**FY21E**	**FY22E**
Revenue	**258**	**381**	**588**	**1,109**	**1,832**
Property management services	116	141	190	568	1,093
Developer VAS	51	128	168	161	177
Commercial operations	62	73	113	134	175
Lifestyle services (community VAS)	28	39	117	246	388
Cost of sales	(148)	(221)	(341)	(674)	(1,144)
Gross Profit	**110**	**160**	**247**	**435**	**688**
Other income	(1)	7	10	10	10
Selling expenses	(1)	(3)	(3)	(11)	(18)
Administrative expenses	(55)	(82)	(119)	(189)	(311)
Impairment	(0)	(1)	(0)	(6)	(9)
Operating profit	**52**	**80**	**135**	**240**	**360**
Finance cost	(0)	(3)	(3)	-	-
Exceptional	2	-	3	-	-
Pre-tax Profit	**52**	**77**	**133**	**240**	**360**
Income tax	(11)	(13)	(23)	(38)	(58)
PROFIT FOR THE YEAR	**41**	**64**	**110**	**201**	**302**
Non-controlling interest	0	(0)	-	(4)	(5)
Net Profit attr. to shareholders	**41**	**64**	**110**	**197**	**298**

Source: Company data, CMBIS estimates

Balance sheet

YE Dec 31 (Rmb mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	**43**	**55**	**104**	**106**	**109**
Property, plant and equipment	29	32	72	74	77
Others	14	23	32	32	32
Current assets	**537**	**1,263**	**488**	**1,196**	**1,506**
Inventories	0	0	0	0	0
Trade receivables	59	83	163	308	508
Cash and cash equivalents	117	49	113	677	786
Others	361	1,130	212	212	212
Total assets	**580**	**1,318**	**591**	**1,303**	**1,615**
Current liabilities	**195**	**372**	**397**	**353**	**353**
Trade and other payables	17	40	0	0	0
Others	178	333	397	353	353
Non-current liabilities	**17**	**522**	**49**	**49**	**49**
Deferred income tax liabilities	-	1	3	3	3
Others	17	522	46	46	46
Total liabilities	**211**	**895**	**446**	**402**	**402**
Equity to shareholders	**369**	**423**	**145**	**900**	**1,212**
Non-controlling interests	(0)	-	-	-	-
Total Equity	**369**	**423**	**145**	**900**	**1,212**

Source: Company data, CMBIS estimates

Cash flow summary

YE Dec 31 (Rmb mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	**52**	**77**	**133**	**240**	**360**
D&A	3	10	-	3	3
Change in working capital	15	219	-	(144)	(201)
Others	(11)	(193)	33	(38)	(58)
Net cash from operating	**59**	**113**	**165**	**59**	**104**
Capex	(12)	(6)	(8)	5	5
JV/Associates	-	1	2	3	4
Others	(68)	(719)	295	(3)	(4)
Net cash from investing	**(80)**	**(725)**	**289**	**5**	**5**
Equity raised	-	-	7	500	-
Change of debts	-	573	(50)	-	-
Others	(2)	(29)	(348)	-	-
Net cash from financing	**(2)**	**544**	**(390)**	**500**	**-**
Net change in cash	(23)	(68)	63	564	109
Cash at the beginning of the year	**141**	**117**	**49**	**113**	**677**
Exchange difference	-	-	-	-	-
Cash at the end of the year	**117**	**49**	**113**	**677**	**786**

Source: Company data, CMBIS estimates

Key ratios

YE Dec 31	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property management services	45.1	37.0	32.3	51.2	59.6
Developer VAS	19.7	33.7	28.6	14.5	9.7
Commercial operations	24.2	19.1	19.2	12.1	9.5
Lifestyle services (community VAS)	11.0	10.2	19.9	22.2	21.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Profit & loss ratios (%)					
Gross margin	42.6	41.9	42.1	39.2	37.6
Net margin	15.9	16.8	18.7	17.8	16.2
Effective tax rate	20.7	17.0	17.2	16.0	16.0
Growth (%)					
Revenue		47.5	54.6	88.5	65.2
Gross profit		45.1	55.1	75.7	58.4
Operating profit		52.9	69.4	77.8	50.0
Net profit		55.6	71.7	79.8	50.8
Balance sheet ratios					
Current ratio (x)	2.8	3.4	1.2	3.4	4.3
Receivable turnover days	84	80	101	101	101
Returns (%)					
ROE	11.1	15.1	75.5	21.9	24.5
ROA	7.1	4.9	18.6	15.2	18.4

Source: Company data, CMBIS estimates

Valuation

We value PM companies based on a scorecard system. There are six main categories as listed below:

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

We estimate net profit to be RMB298mn in 2022E. Using 10x 2022E P/E based on our scorecard ranking, and exchange rate RMB0.83=HK$1.00, we estimate target price of HK$4.41/share and initiate with Buy Rating.

Figure 35: Valuation scorecard

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

Source: CMBIS

Figure 36: Comps table

Company	Ticker	CMBI rating	TP (HK$)	Last price (HK$)	Mkt Cap (HK$ mn)	P/E 20A	P/E 21E	P/E 22E	Net profit growth (%) 21E	Net profit growth (%) 22E
Country Garden Services	6098 HK	BUY	91.2	81.1	261,014	75.0	49.2	33.4	68.9	40.7
CR MixC Lifestyle	1209 HK	BUY	56.0	52.9	120,744	129.7	68.3	49.4	93.2	33.8
A-Living	3319 HK	HOLD	34.2	35.7	50,694	23.0	16.6	12.7	47.3	33.5
Greentown Services	2869 HK	HOLD	9.5	11.8	38,271	44.7	32.5	24.2	32.2	21.5
Ever Sunshine	1995 HK	BUY	22.2	21.0	34,995	72.2	46.0	30.6	72.8	54.2
Poly Services	6049 HK	HOLD	53.4	56.5	31,263	37.2	29.6	23.0	15.5	26.9
S-Enjoy	1755 HK	BUY	34.6	23.0	20,014	36.2	23.8	16.6	41.3	27.2
Powerlong Commercial	9909 HK	BUY	33.2	28.1	18,096	48.4	33.3	23.9	52.1	31.5
Excellence CM	6989 HK	BUY	14.9	8.8	10,782	23.6	16.6	12.0	62.9	39.7
Central China New Life	9983 HK	BUY	12.9	8.2	10,247	20.5	13.6	9.8	22.1	32.6
Sino-Ocean Services	6677 HK	BUY	7.1	6.1	7,187	21.6	14.8	10.5	50.5	41.8
New Hope Services	3658 HK	BUY	4.4	2.9	2,320	17.5	9.8	6.5	78.6	50.8
Redsun Services	1971 HK	BUY	9.4	4.2	1,739	18.1	9.1	6.2	75.8	47.7
COPH	2669 HK	NR	NA	7.4	24,454	36.3	26.8	20.6	35.6	30.2
Times Neighborhood	9928 HK	NR	NA	6.7	6,565	23.1	13.5	9.1	71.5	48.4
Aoyuan Healthy Life	3662 HK	NR	NA	6.2	4,503	15.9	10.3	7.7	54.0	34.6
Shimao Services	873 HK	NR	NA	26.0	61,463	72.4	39.9	24.2	81.3	65.0
KWG Living	3913 HK	NR	NA	9.4	18,967	47.7	22.4	14.1	113.2	59.0
Evergrande Services	6666 HK	NR	NA	9.1	98,378	32.2	19.2	12.8	67.1	49.9
Sunac Services	1516 HK	NR	NA	27.2	84,415	122.0	56.7	34.8	115.2	62.7
Jinke Smart Services	9666 HK	NR	NA	73.0	47,658	60.2	35.9	23.7	67.7	51.5
					Average	70.1	41.2	28.1	70.8	39.8

Source: Bloomberg, CMBIS estimates

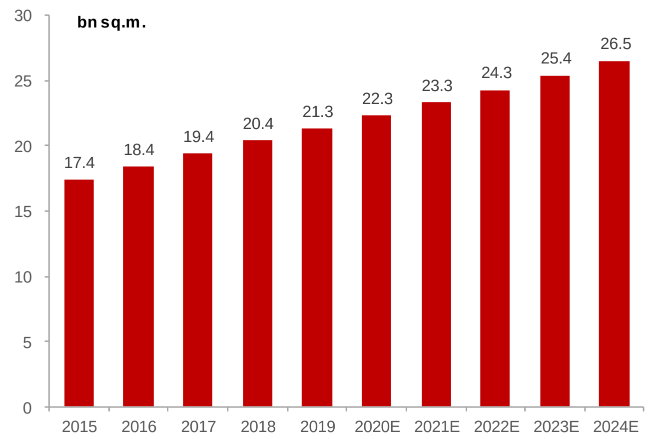
Industry Overview

Property management industry in China

The property management industry in China has been developing for nearly 40 years. As of the end of 2019, there were approximately 137,000 property management companies in China. The overall market size of the property management industry in China increased from 17.4bn sq m in 2015 to 21.3bn sq m in 2019, representing a CAGR of 5.2%. According to Savills and EH Consulting, the CAGR for the management area of the Chinese property industry from 2020 to 2024 will be 4.5%.

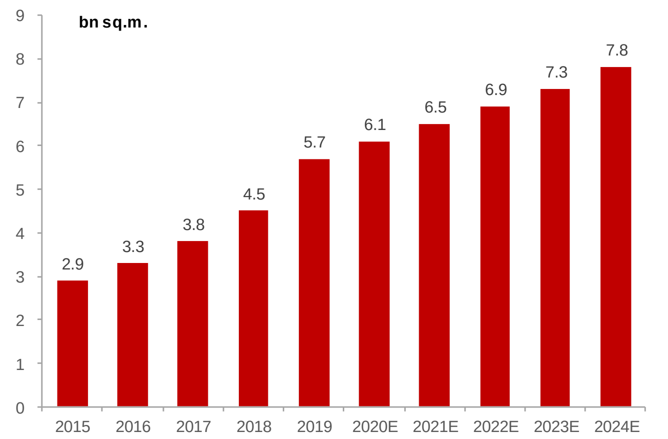
The Top 100 PM Companies in China have accelerated their growth in terms of managed GFA. According to Savills and EH Consulting, the GFA under management of the Top 100 grew steadily to 5.7bn sq m. in 2019, with a CAGR of 19.1% from 2015 to 2019. According to Savills and EH Consulting, the GFA under management of the Top 100 will increase at a CAGR of 6.2%.

Figure 37: The overall market size of the property management industry in China, 2015-2024E



Source: Savills and EH Consulting, CMBIS

Figure 38: The GFA under management of the top 100 property management companies in China



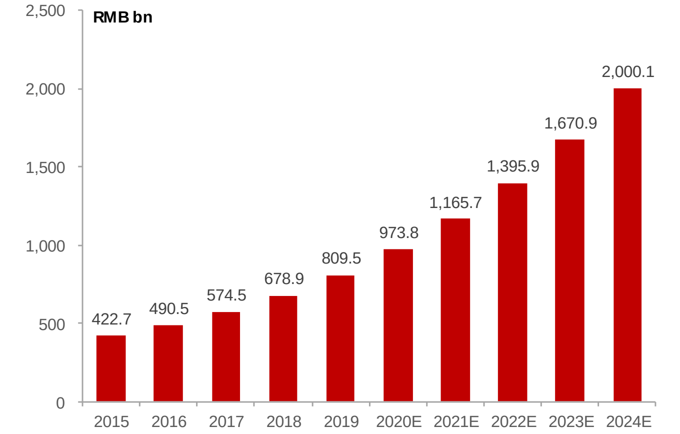
Source: Savills and EH Consulting, CMBIS

The continuous increase in the GFA, growing customer needs of diversified services and the expansion of diversified revenue channels have promoted greater growth in the operating revenue. In 2019, the total operating revenue of the PM industry of China increased 19.2% YoY to approximately RMB809.5bn, whereas the CAGR for the total operating income of the PM industry reached 17.6% between 2015 and 2019. According to Savills and EH Consulting, the CAGR for the total operating revenue of the PM industry will reach 19.7% from 2020 to 2024.

The operating revenue of the Top 100 Property Management Companies reached a record high of RMB 149.4bn in 2019, accounting for 18.5% of the entire industry, representing a YoY increase of 38.8% as compared to RMB 107.6bn in 2018. The CAGR for the operating revenue of the Top 100 Property Management Companies was 22.2% from 2015 to 2019, which was 4.6% higher than the CAGR for the overall operating revenue of the industry.

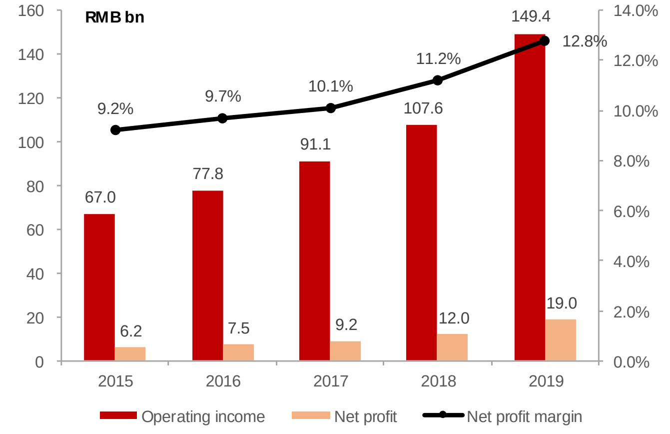
The Top 100 Property Management Companies have achieved steady growth in net profits while maintaining stable charging levels. According to Savills and EH Consulting Report, net profit of the Top 100 Property Management Companies amounted to RMB 19.0bn in 2019, representing a YoY increase of 58.2% from 2018. The CAGR for net profits of the Top 100 Property Management Companies was 32.6% from 2015 to 2019.

Figure 39: The operating revenue of property management service market in China



Source: Savills and EH Consulting, CMBIS

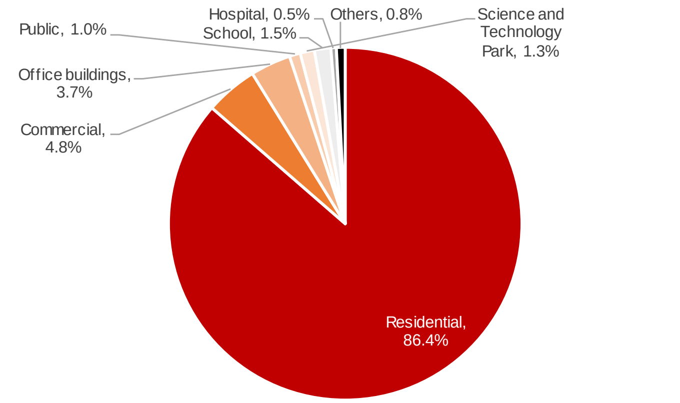
Figure 40: Operating revenue, net profit and net profit margin of the top 100 property management companies from 2015 to 2019



Source: Savills and EH Consulting, CMBIS

At present, the principal property management services in China are provided to residential and non-residential properties, of which the residential properties remain the main focus. In 2019, the area of residential properties under management of the Top 100 Property Management Companies amounted to 5.0bn sq m, accounting for 86.4% of the total area under management of the Top 100 Property Management Companies.

Figure 41: The proportion of property types under management of the top 100 property management companies in 2019

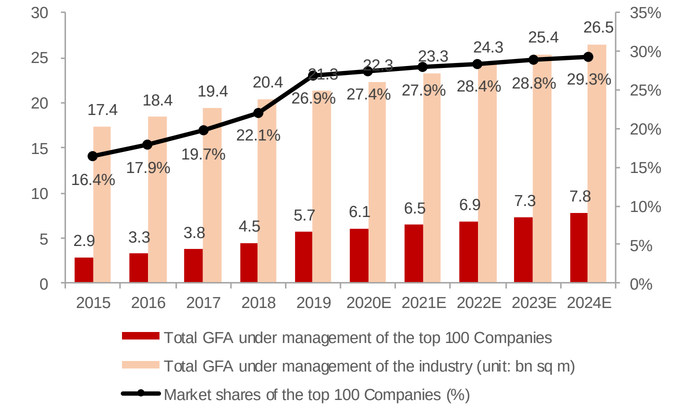


Source: Savills and EH Consulting, CMBIS

Competitive landscape

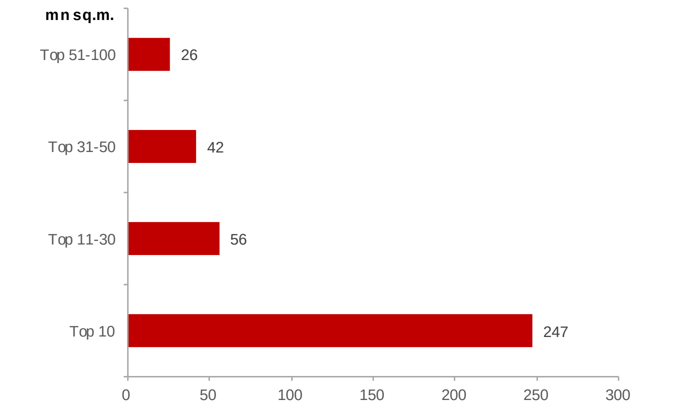
The PM industry in China is highly competitive. The Top 100 companies rely on strong capital and resource advantages to capture a market share of near 26.9% in terms of GFA under management. Growing property companies make use of competitive advantages to differentiate themselves from large players, developing diversified VAS while improving basic PM services, in order to gain market share among intense competition.

Figure 42: Increasing market concentration



Source: Savills and EH Consulting, CMBIS

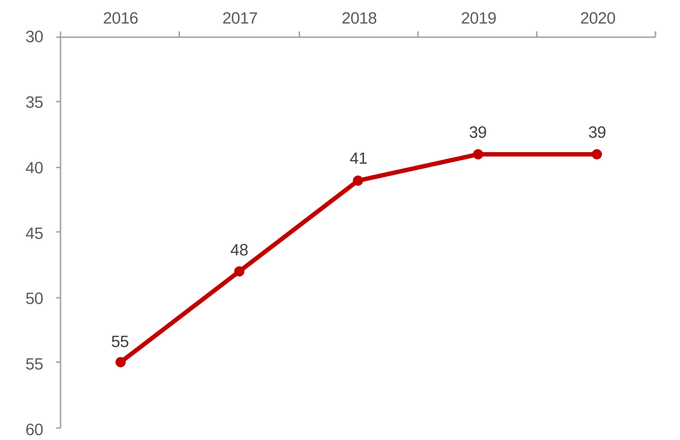
Figure 43: Competitive landscape of property management industry in China



Source: Savills and EH Consulting, CMBIS

According to Savills and EH Consulting, the Company generated RMB58.23 per sq m, ranking 8th among the Top 100 PM companies. Furthermore, the Company ranked 5th among Top 100 PM Companies in terms of net profit margin. Besides, during 2018 and 2019, the growth rate of operating revenue was 47.5%, which was 8.5% higher than the average growth rate of the market. In 2019 the Company's average monthly PM fee was RMB3.69/sq m, which was RMB1.35 higher than industry average.

Figure 44: The Company's rankings among top 100 property management companies in terms of overall strength (2016-2020)



Source: Savills and EH Consulting, CMBIS

Figure 45: The Company's rankings among top 100 property management companies in terms of revenue generating capacity per sq m (2019)

Ranking	Companies	Revenue generating capacity per sq.m. (RMB/sq.m.)
1	Company A	~130
2	Company B	~78
3	Company C	~69
4	Company D	~64
5	Company E	~62
6	Company F	~61
7	Company G	~60
8	The Group	58.23

Source: Savills and EH Consulting, CMBIS

Key industry drivers

Introduction of the Relevant Supporting Policies

Laws and regulations are the fundamental supporting pillar of the industry, and a good policy environment creates an important foundation for the industry's healthy development.

On 29 Oct 2020, the NDRC and 14 other ministries jointly issued the Work Programme on The Promotional Fees for The Recent Expansion of Domestic Demand, which provides external protection for the diversification of the property industry and is conducive to promoting the construction of intelligent communities and community life services for property management companies.

On 5 Jan 2021, the MOHURD issued Notice on Strengthening and Improving the Management of Residential Property, which clearly improves the pricing mechanism of property services, emphasizes the market-oriented pricing tone of residential property management, and establishes a dynamic adjustment mechanism based on the implementation of government-directed prices.

The Significant growth in population, urbanization rate and per capita disposable income

According to the NBS, the total population of China was 1.4bn at the end of 2019, representing a net increase of 4.7 million as compared to 2018. At the end of 2019, the urbanization rate of China has reached 60.6%, representing a CAGR of 2.4% from 2015 to 2019. The per capita disposable income of urban residents of China increased from RMB31,195 in 2015 to RMB42,359 in 2019, representing a CAGR of 7.9% from 2015 to 2019. The significant growth in the urbanization rate and per capita disposable income have become the major driving factors of the development of the PM industry.

New Opportunities under the Epidemic

During the COVID-19 epidemic, PM companies improved customer satisfaction by providing quality services and meeting customer needs. PM companies have received government financial support for the development of mobile applications, internet platforms and smart communities. In addition, driven by the demand for epidemic prevention, old residential communities will seek and entrust PM companies to provide necessary services.

Entry barriers

According to Savills and EH Consulting, entry barriers of the PM industry are as follows:

Figure 46: Operating revenue of PM service market in China

Entry barriers	Reason
Market demand for professional services	The demand for PM services varies by client and property type. New players may be at disadvantage as they typically lack understanding and experience in providing PM services to different clients.
Demand for professional talents	The development of new technologies have led to a substantial increase in the demand for professional talents.
Standardization of operations and management	PM companies need to standardize service and operations to better control costs and ensure service quality, which could present a challenge to new players.
Specialized brands	It is challenging for new players without established brands to gain market share in the PM industry.
Capital requirement	Capital is required to improve management and operations efficiency, which can be an obstacle for new players.

Source: Savills and EH Consulting, CMBIS

Risk factors

Adverse development in the business or financial positions of New Hope Property Group

A substantial portion of the Company's revenue under the property management service segment was derived from properties developed by New Hope Property Group. In 2018 and 2019 and the nine months ended 30 Sep 2019 and 2020, revenue generated from property management services provided to properties developed by New Hope Property Group amounted to RMB 104.5mn, RMB 127.0mn, RMB 95.2mn and RMB 106.7mn, respectively, accounting for approximately 40.5%, 33.4%, 34.0% and 29.0%, respectively, of total revenue for the same periods. However, the Company does not have control over the management strategy of New Hope Property Group, nor the macroeconomic or other factors that affect their business operations and financial positions. Any adverse development in the business or financial positions of New Hope Property Group or their ability to develop and maintain properties may materially and adversely affect the Company's ability to procure new property management services from them.

Failure to secure new or renew existing property management service agreements and commercial operational service agreements on favorable terms, or at all

The Company's ability to expand its portfolio of property management service agreements and commercial operational service agreements is key to the sustainable growth of its business. As of 30 Sep 2020, 9.1% of the residential properties under the Company's management had established property owners' associations, which accounted for 7.8% of its total GFA under management for residential properties, and its total GFA under management governed by property management service agreements without fixed terms amounted to approximately 6.2mn sq m. In 2018 and 2019 and the nine months ended 30 Sep 2020, the Company's property management service agreement retention rate was 100.0%, 97.1% and 100.0%, respectively. In 2019, its retention rate was lower than 100%, primarily because it voluntarily withdrew from two property management projects due to their low profit margin.

Inability to identify suitable acquisition targets or complete acquisitions

The Company plans to grow its business by organic growth as well as making acquisitions and investments in companies that suit its business strategies. The inability to identify suitable acquisition targets or complete acquisitions could materially and adversely affect its competitiveness and growth prospects. In addition, acquisitions and integration of acquired operations with its existing operation involve uncertainties and risks, including potential ongoing financial obligations and unforeseen or hidden liabilities, inability to apply its business model or standardized operational processes on the acquisition targets, difficulties in integrating acquired operations with its existing businesses, failure to achieve the intended objectives, benefits or revenue-enhancing opportunities, failure to protect and maintain the acquired rights relating to brand names and/or other material intellectual property rights, and diversion of resources and management attention.

Adverse change or development affecting the Southwestern China region and the Eastern China region

The Company focuses on cities with high population densities in economically developed regions, and the majority of its operations of property management are concentrated in the Southwestern China region and the Eastern China region. As of 31 Dec 2018 and 2019 and 30 Sep 2020, it managed an aggregate GFA of approximately 3.4mn sq m, 3.4mn sq m and 4.3mn sq m, respectively, of the properties in the Southwestern China region, accounting for approximately 67.3%, 52.1% and 54.5%, respectively, of its total GFA under management as of the same dates. In 2018 and 2019 and the nine months ended 30 Sep 2020, revenue generated from the property management services under the property management service segment in the Southwestern China region amounted to RMB 77.6mn, RMB 85.9mn and RMB 67.3mn, respectively, accounting for approximately 66.6%, 61.1% and 51.9%, respectively, of total revenue for the same periods.

As of 31 Dec 2018 and 2019 and 30 Sep 2020, it managed an aggregate GFA of approximately 0.6mn sq m, 1.6mn sq m and 2.0mn sq m, respectively, of the properties in the Eastern China region, accounting for approximately 12.5%, 24.4% and 25.1%, respectively, of its total GFA under management as of the same dates. In 2018 and 2019 and the nine months ended 30 Sep 2020, revenue generated from the property management services under the property management service segment in the Eastern China region amounted to RMB 17.6mn, RMB 33.0mn and RMB 37.3mn, respectively, accounting for approximately 15.1%, 23.5% and 28.8%, respectively, of total revenue for the same periods.

Given such concentration, any material adverse change or development in macroeconomic conditions, the real estate industry, government regulations over property management, the competition environment, or the future prospects in or any natural disaster or epidemic affecting the Southwestern China region and the Eastern China region may adversely affect the Company's business.

Potential difficulty in fee collection

In 2018 and 2019 and the nine months ended 30 Sep 2020, the Company's collection rate of PM fees was 93.3%, 94.6% and 84.0%, respectively. According to the Company, collection rate was low for 9M20 because property owners tend to pay fees towards the end of a year. The Company seek to collect overdue property management fees through a number of collection measures, but they may not be effective or allow for an accurate prediction of future collection rates.

Potential fluctuations on labour and subcontracting costs

In 2018 and 2019 and the nine months ended 30 Sep 2019 and 2020, the Company's labour costs accounted for 54.7%, 60.7%, 63.1% and 55.6%, respectively, of total cost of sales. During the same periods, subcontracting costs represented 30.0%, 25.1%, 22.1% and 26.6%, respectively, of total cost of sales. Controlling and reducing labour and subcontracting costs is crucial for the Company to maintain and improve margins. However, increases in minimum wage, headcount, or delay in service standardization could hinder the Company's efforts at cost control.

The COVID-19 pandemic

The COVID-19 pandemic has caused and may continue to cause a long-term adverse impact on the economy and social conditions in China and other affected countries, which may have an indirect impact on the PRC property development and management industries, and adversely affect the Company's business operations. For example, to comply with the requirements of local governments with respect to community management during the outbreak of the COVID-19 pandemic, the Company assigned additional personnel and incurred additional costs to conduct visitor control for properties under its management. In addition, revenue from value-added services provided to non-property owners decreased as a result of the closure of sales offices and display units during the outbreak of the COVID-19 pandemic.

Appendix 1: Milestones

Figure 47: Milestones

Year	Event
2010	New Hope Service was established and nominated as a standing executive member of Sichuan Real Estate Association (四川省房地产业协会). The Company started providing PM services to properties developed by the New Hope Property Group in Chengdu.
2014	The Company was accredited ISO9001 quality management system certification for office buildings and residential properties. The Company expanded to provide standardized and professional PM services to both residential and non-residential properties. The Company established its business presence in Wenzhou.
2016	The Company began providing PM services in first-tier cities including Shanghai to gain market share in the Eastern China Region and the Northern China region, respectively.
2017	New Hope Commercial was established for the provision of commercial operational services.
2019	The Company adopted new brand of “New Hope Service (新希望服务)”. The Company started providing commercial operational services to its first shopping mall project, Wenzhou New Hope Liti City Shopping Center（温州新希望·立体城）. The Company was awarded the 2019 Model Enterprise Award for Service Providers (中国服务示范企业奖) by Golden Key China (中国金钥匙). The Company was jointly recognized by China Property Management Association and Shanghai Yiju Real Estate Research Institute China Real Estate Evaluation Center (中国物业管理协会, 上海易居房地产研究院中国房地产评测中心) as the 2019 Potential Property Management Unicorn Company (2019 物业服务企业潜力独角兽).
2020	The Company was ranked 39th among the 2020 Top 100 Property Management Companies in China in terms of Overall Strength (2020 年中国物业企业综合实力百强) by EH Consulting. The Company’s aggregated GFA under management reached 10mn sq m.

Source: Company data, CMBIS

Appendix 2: Management team

Figure 48: Management team

Name	Age	Position	Roles and Responsibilities	Date of Joining the Group	Date of Appointment as Director
Mr. Wu Min (武敏)	48	Executive Director	Responsible for the overall financial, cost management, internal control and capital market related matters	Mar-16	Dec-20
Ms. Chen Jing (陈静)	36	Executive Director, CEO and general manager	Responsible for implementing the strategies and operational management	Aug-18	Nov-20
Mr. Zhang Minggui (张明贵)	38	Non-executive Director and chairman of the Board	Responsible for providing guidance and formulation of business strategies for overall development	Jul-17	Dec-20
Mr. Jiang Mengjun (姜孟军)	46	Non-executive Director	Responsible for providing guidance and formulation of business strategies for overall development	Dec-20	Dec-20
Mr. Dong Li (董李)	43	Non-executive Director	Responsible for providing guidance and formulation of business strategies for overall development	Dec-20	Dec-20
Ms. Huang Kun (黄坤)	37	Non-executive Director	Responsible for providing guidance and formulation of business strategies for overall development	Dec-20	Dec-20
Mr. Cao Qilin (曹麒麟)	47	Independent non-executive Director	Responsible for providing independent advice on operations and management	[•]	[•]
Mr. Yan Lap Kei Isaac (殷立基)	60	Independent non-executive Director	Responsible for providing independent advice on operations and management	[•]	[•]
Mr. Li Zhengguo (李正国)	48	Independent non-executive Director	Responsible for providing independent advice on operations and management	[•]	[•]

Source: Company data, CMBIS

Financial Formula

Operating profit=Gross profit + Other income – Other net losses - Selling and distribution expenses – Admin expenses

Operating margin = Operating profit/Revenue

Pre-tax margin = Pre-tax profit/Revenue

Effective tax rate = Profit tax/Pre-tax profit

Net debt/total equity ratio = Total borrowings including loans from related parties, interest bearing bank and other borrowings and lease liabilities less cash and cash equivalents and restricted cash divided by total equity

ROA = Profit for the period divided by the average balance of total assets as of the beginning and end of the period and multiplied by 100%

ROE = Profit for the period divided by the average balance of total equity as of the beginning and end of the period and multiplied by 100%

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