

China Property Service Sector

Long-term thesis stays unchanged; Pair trade opportunities amid macro and parentco risks

The PM sector has been down 24% in the past month, underperforming HIS (-11%) mainly due to regulation and parentco risk. **For regulation risk**, we think market overreacts on MOHURD's regulation on common space use as 1) it only contributed 3% of total revenue in 2020; 2) based on our check, most of listcos follow the profit sharing model with owner committee. Therefore, we think this may speed up the consolidation of small players and benefit market leaders. **For parentco risk**, the impact could be more meaningful given that the tight property policy may negatively affect developers' sales outlook. **How to play now:** Industry valuation already looks very attractive at 20.5x 2022E PE vs. earnings CAGR of 50% in 20-23E. So investors could buy at this level or do pair trades (short developers) to hedge against parentco risks.

- **Long-term policy will stay positive while limited impact on the regulation of common area:** Regarding MOHURD's documents to regulate illegal use and profits taking from common area, we think the impact to listco is rather limited as 1) The revenue contribution from common space (advertisement/others) was only 3% of total in 2020. 2) our checking with most of our covered listco shows the profit sharing mechanism has been in place based on the legal contracts with owners. Instead, the overall tone towards PM industry will continue to stay positive given unsettled Covid situation among different cities and other situations where PM staff serves as first-line guards. For example, [Tianjin recently echoed for the support for PM's consolidation and Community VAS](#). Therefore, we think our VAS growth story will continue and contribute by 20% in 2022E from current 18%.
- **Pair trade to hedge against parentco/macro risk:** Despite increasing efforts for third-party expansion, PM Co. still has 40%+ of its revenue coming from the parentco. With policy risks continue to tighten on property developers on the funding/mortgage/financial stability, we think this has some impacts for developers' outlook. Together with macro risks, we think the pair trade (long PM, short developers) could work well if looking back at 2019 during trade war.
- **Guidance raised during 1H21 results may serve as the major catalyst:** So far 10 PM firms have issued positive profit alerts in 1H21E with an average earnings growth of 77% YoY or 40% of 2021E Net profits. We think the strong earnings profile would continue to support the industry and especially names with potential beat and guidance raise may outperform during the interim such as Sunac Services, CR Mixc Lifestyle and CGS.
- **Initiation and rating change:** We initiate Sunac Services and Evergrande Services at Buy rating. For Sunac Services, we think its strong third-party expansion capability together with the synergy from its parentco could help its fast overtaking to the Top 5 PM co. For Evergrande PM, our bear case study shows the downside is limited under the scenario of parentco's forced asset disposal. Our top pick is **CR Mixc Lifestyle** (Commerical operation beat in 1H21); **Sunac Services**; **CGS** and **CIFI Ever Sunshine**. The industry is currently trading at 19x 2022E PE, in line with industry average. **Risks:** further IPO funds selloff. 1H21 results miss.

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China Property Service Sector

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Very limited impacts from regulation on common space

We think the market overreacts the impact of regulations on common space as 1) the revenue contribution from common space is only of 3% total revenue; 2) Most listcos are following the contracts of profit sharing with owner committee. If no committee, will follow the city's practice and put the owners' profit sharing into renovation fund for future use. Therefore this regulation is more towards small PM firms that carry unauthorized activities and thus may speed up the consolidation process for the market leaders.

From policy-wise, this is not the reverse of supportive MOHURD's 21 points on Jan 6th. Instead, we think governments would continue to provide support towards the industry (eg. Tianjin Government just issued its local version of 21 points to push for Community VAS).

Details of MOHURD's [latest document](#) on Property Service:

- Failing to provide services according to the content and standards agreed in the property service contract;
- Information not disclosed in accordance with regulations in regards to property service fee standards; the operation and income of the common area; usage of maintenance fees and other related information;
- Fees charged beyond the standards of the items stipulated in the contract or disclosed in the property service fee standards;
- **To carry out business activities with the common area without authorization; embezzle or misappropriate the operating income shared by owners;**
- Refuses to resign from PM service project without justifiable reasons after the contract is rescind or terminated according to law.

Figure 1: Listcos are following the profit sharing contracts with owners

Company	Common space operations as % of VAS in 2020	Common space operations as % of Revenue in 2020	Company's current practice
Evergrande Services	49.2%	5.9%	
CC New Life	15.1%	4.3%	Strictly follow the profit sharing contracts with owner committee; If no committee, will follow the city's practice and put the owners' profit sharing into renovation fund for future use
Country Garden Service	27.8%	4.3%	Same as above
Average	30.7%	4.8%	
A-Living	28.8%	3.0%	Same as above
Poly Services	12.3%	2.7%	
S-Enjoy	14.9%	2.6%	Same as above
Greentown services	8.9%	1.9%	
Sunac Services	36.2%	1.4%	Same as above
Ever Sunshine	5.0%	1.3%	Same as above
Average	22.9%	3.2%	

Source: Company data, CMBIS estimates

Therefore, we think the long-term perspective of Community VAS will not change and more initiatives like community shopping will continue to grow the segment. We expect this segment to grow 61% in 2020-22E CAGR vs. revenue of 45% and it will contribute 20% of revenue GP by 2022E.

Figure 2: Our forecast of Community VAS Revenue

Community VAS as % of total revenue	2017	2018	2019	2020	2021E	2022E
Central China New Life	20%	28%	43%	50%	34%	32%
Ever Sunshine	15%	18%	26%	25%	25%	25%
Excellence CM	9%	11%	11%	14%	20%	25%
Greentown Service	18%	20%	22%	22%	22%	23%
S-Enjoy	5%	4%	9%	17%	21%	23%
Poly Services	10%	15%	19%	22%	22%	22%
Country Garden Services	8%	9%	9%	11%	15%	20%
Evergrande Service	6%	6%	8%	12%	15%	18%
A-Living	6%	9%	9%	10%	11%	13%
CR Mixc Lifestyle	5%	5%	5%	6%	7%	8%
Sunac Services	1%	3%	4%	4%	5%	6%
Average	9%	12%	15%	18%	18%	20%

Source: Company data, CMBIS estimates

Other reason for recent sell-off: parentco risk

We think the main reason for the recent share price sell-off was due to the parentco risk. As overall property policy remains tight, some developers are under liquidity pressure which may impact the outlook of annual GFA delivery to the its property management arm. While we expect policy risk unlikely to loosen in the near term which may continue to overshadow the development sector, investors may choose to do pair trade to hedge against the risk

Figure 3: Parentco's delivery as % of newly-added GFA under management

Parentco's delivery as % of newly-added contracted GFA	2020
Evergrande Service	99%
Country Garden	76%
MixC	66%
Sunac Sevices	59%
Poly Services	44%
S-Enjoy	37%
Cenchi New Life	27%
Ever Sunshine	12%
Average	53%

Source: Companies, CMBIS

Figure 4: VAS to non-residents are highly correlated to its parentco

VAS to non-residents revenue as % of total	2017	2018	2019	2020	2021E	2022E
S-Enjoy	30%	34%	49%	39%	23%	20%
CR Mixc Lifestyle	28%	33%	36%	37%	38%	37%
Sunac Services	47%	56%	56%	36%	29%	27%
Country Garden Services	11%	17%	31%	34%	38%	39%
Evergrande Service	37%	36%	29%	28%	24%	20%
A-Living	26%	43%	35%	25%	30%	34%
Ever Sunshine	20%	20%	17%	18%	19%	21%
Central China New Life	8%	11%	24%	17%	18%	18%
Poly Services	15%	16%	16%	17%	16%	16%
Greentown Service	13%	14%	14%	15%	14%	15%
Average:	23%	28%	31%	27%	25%	25%

Source: Companies, CMBIS

In terms of pair trade, generally a good hedge would be short the parentco if you check the below table. Also given that the developers' risks are mainly on the liquidity tightening, it's also suggested to hedge against those highly-gearred names.

Figure 5: PM sector was generally in line and outperformed developers in 1 month and 3 months' horizon

	Daily change (%)	Monthly change (%)	Monthly spread	3M spread
Cenchi New Life	-9.0	-24.6	-3.6	35.9
Aoyuan Healthy Life	-7.8	-19.3	3.0	32.3
Shimao Ser	-19.5	-31.6	0.5	30.5
KWG Living	-15.7	-26.1	-5.0	30.2
Times Neighborhood	-11.1	-19.4	-1.9	22.7
Jinke Smart Ser	-18.1	-35.8	0.0	20.6
A-Living	-9.2	-8.5	7.8	18.5
Sunac Ser	-13.9	-28.4	-1.7	17.9
MIXC	-14.1	-23.7	-4.7	16.6
Ever Sunshine	-17.5	-26.4	5.6	14.0
Poly PM	-6.6	-15.2	-9.0	12.0
China Overseas Ser	-14.4	-14.8	-0.7	11.0
Country Garden Ser	-16.6	-27.3	-2.5	8.7
Powerlong Comm.	-7.1	-20.0	-2.5	6.8
S-Enjoy	-13.5	-22.2	-0.3	-0.7
Evergrande PM	-12.0	-37.0	4.2	-7.2
Greentown Ser	-7.0	-27.9	-24.7	-14.8
Average	-12.5	-24.0	-2.1	15.0

Source: Bloomberg

Figure 6: three red line indicators by Top 40 developers in 2020

Company	Net Gearing	Debt to Asset Ratio less contract liability	Cash to ST debt	Lines crossed
Country Garden	55.6%	80.5%	1.9	1
Evergrande	159.3%	83.4%	0.5	3
Vanke	18.1%	70.4%	1.8	1
Sunac	96.0%	78.7%	1.1	1
China Overseas	32.6%	53.3%	2.5	0
Shimao	50.3%	68.5%	1.7	0
Greentown	63.8%	71.9%	2.0	1
CR Land	29.5%	59.7%	2.2	0
China Merchant Shekou	28.8%	58.8%	1.2	0
Longfor	46.5%	51.0%	4.2	0
Seazen	43.7%	74.1%	1.7	1
CIFI	64.0%	72.5%	2.7	1
Jinke	75.1%	69.9%	1.3	0
Zhongliang	65.8%	79.9%	1.1	1
Logan	61.4%	69.8%	1.8	0
R&F	130.2%	76.7%	0.4	3
Zhenro	64.7%	76.6%	2.2	1
Agile	61.0%	71.9%	1.1	1
Aoyuan	82.7%	78.0%	1.0	1
Sino-Ocean	54.8%	69.0%	1.5	0
Meidi	79.2%	77.6%	1.5	1
Shinsun	136.4%	82.4%	1.1	2
Sinic	63.6%	73.2%	0.8	2
SCE	59.2%	68.7%	1.3	0
Kaisa	97.9%	70.3%	1.6	1
Yuzhou	85.8%	77.9%	1.2	1
KWG	61.7%	75.1%	1.6	1
Languang	88.6%	73.0%	1.1	1
Central China	56.8%	85.5%	1.5	1
Times	65.6%	78.6%	2.1	1
Radiance	75.3%	69.0%	1.1	0
Yuexiu	47.5%	69.2%	1.7	0
OCT	73.3%	70.0%	2.2	0

Source: Companies, CMBIS

Figure 7: CIFI vs. Ever Sunshine in 2019



Source: Companies, CMBIS

Figure 8: Country Garden vs. CGS in 2019

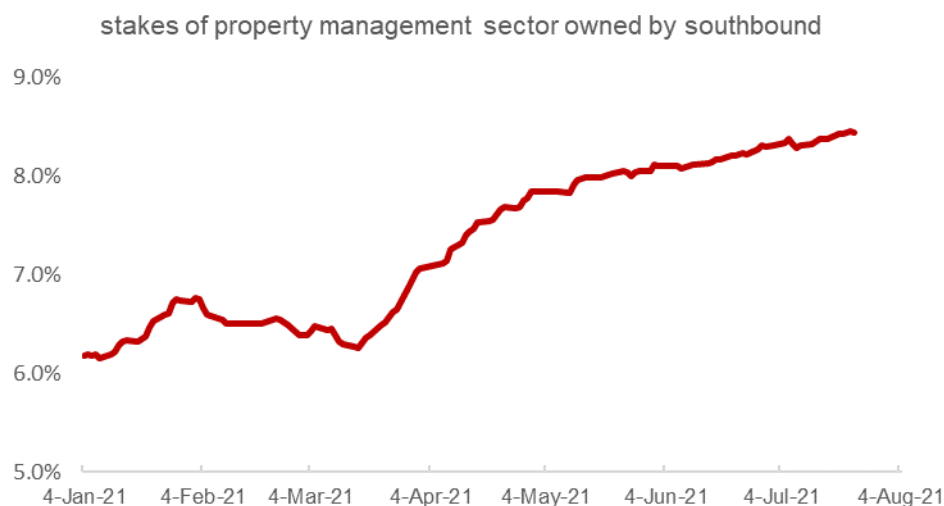


Source: Companies, CMBIS

Other reason for recent sell-off: IPO investors' stake reduction

It is observed that some PM names under pressure due to IPO investors' selloff. We think this will be only temporary as 1) there is no change in the fundamental; 2) continuous inflow of southbound money will continue to support the overall sector.

Figure 9: Southbound continues the inflow



Source: HKEX

Figure 10: Southbound ownership ranking

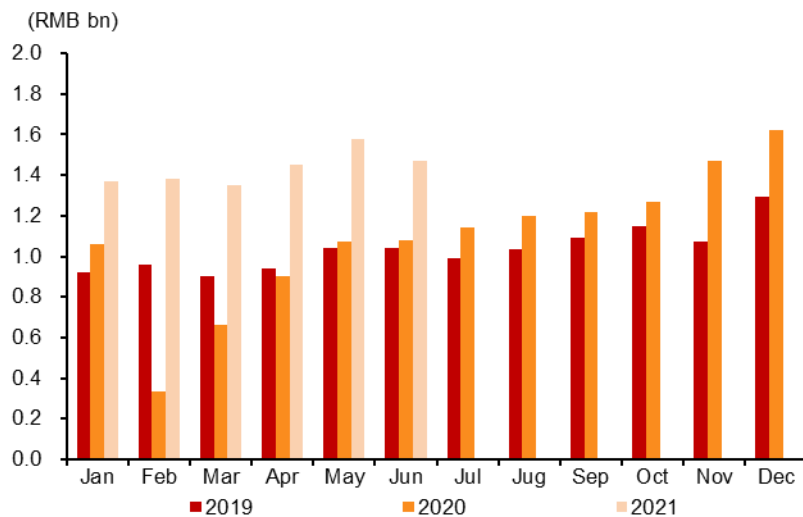
Southbound as % of total stakes	1-Jan-21	1-Feb-21	1-Mar-21	1-Apr-21	1-May-21	1-Jun-21	1-Jul-21	22-Jul-21
Poly Services	48.51%	51.56%	45.09%	47.43%	51.83%	49.73%	45.90%	45.76%
Jinke Smart Services	0.00%	0.00%	0.00%	3.96%	5.86%	9.34%	12.35%	14.64%
COPH	11.72%	14.15%	14.52%	13.33%	13.59%	13.72%	13.78%	14.10%
Greentown Services	10.73%	11.38%	10.86%	8.58%	9.29%	8.86%	9.24%	8.38%
Country Garden Services	8.43%	8.53%	8.78%	8.99%	8.65%	8.47%	8.58%	8.29%
Ever Sunshine	4.91%	6.76%	7.07%	8.57%	8.84%	8.86%	8.03%	8.16%
Powerlong Commercial	5.53%	4.80%	5.49%	5.76%	6.66%	7.13%	7.52%	7.52%
Cenchi New Life	2.11%	3.03%	3.23%	3.28%	3.77%	4.78%	5.76%	5.90%
S-Enjoy	0.00%	0.00%	0.00%	3.73%	5.09%	5.52%	5.83%	4.95%
Sunac Services	0.48%	0.41%	0.40%	0.94%	1.66%	2.39%	3.13%	3.34%
CR MixC Lifestyle	0.00%	0.00%	0.00%	0.18%	0.48%	0.62%	1.40%	1.84%
Evergrande Services	0.00%	0.00%	0.00%	0.12%	0.14%	0.24%	1.37%	1.84%
Excellence CM	0.00%	0.00%	0.00%	0.38%	1.19%	1.44%	1.36%	1.39%
A-Living	0.24%	0.24%	0.26%	0.59%	0.58%	0.53%	0.47%	0.51%
Average:	6.62%	7.20%	6.84%	7.56%	8.40%	8.69%	8.91%	9.04%

Source: HKEX; CMBIS

Continue to shopping mall operator

As 2021 would be the year of consumption, we reiterate our positive view on the rental income growth of 30% for major players like CR Land, which would benefit its service arm. This is evidenced by CR Land's 1H21 figure that shows 68% rental income YoY growth to RMB 8.6bn rental income which beat our expectation and thereby benefits CR Mixc Lifestyle which can share 5%/10% of rental/EBIT revenue.

Figure 11: CR Land's monthly rental income (up 68% YoY growth in 1H21)



Source: Company data, CMBIS

1H21E results remain strong

So far 10 PM firms have issued positive profit alerts in 1H21E with an average earnings growth of 77% YoY or 40% of 2021E Net profits. We think the strong earnings profile would continue to support the industry and especially names with potential beat and guidance raise may outperform

Figure 12: 1H21 profit alerts

1H Profit Alert	1H21 NP Yoy	% of FY2021E	2021 Full year guidance	vs. Market Expectations
Sunac Services	> 140%	46%	> 100%	Beat
Evergrande Service	> 70%	47%	50-60%	Beat
CC New Life	> 40%	41%	> 40%	In line
Redsun Service	> 60%	38%	> 50-60%	In line
Jinke Service	> 70%	45%	> 80%	In line/slightly miss
Times Neighborhood	> 80%	36%	N/A	In line
KWG Living	> 150%	28%	>150%	In line
Aoyuan Healthy L	> 50%	44%	>50%	In line
S-Enjoy	> 45%	40%	>44%	In line
Zhenro Services	> 60%	37%	N/A	N/A
Average	>77%	40%		

Source: Company data, CMBIS

Valuation looks attractive

Currently the industry is trading at 20.5x 2022E PE, in line with historical average. Given that we forecast 2022E earnings growth at 44%, the peg is at 0.47, which is at a very attractive level. However, we continue to see divergent among big and small players due to visibility and room for growth in VAS.

Figure 13: Valuation table

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	59.6	192,166	59.0	36.8	24.8	60.2	48.3
CR MixC Lifestyle	1209 HK	BUY	56.0	40.0	91,300	75.5	52.6	37.8	43.4	39.3
Evergrande Services	6666 HK	BUY	10.4	5.8	62,486	18.2	12.7	8.3	54.0	52.5
Sunac Services	1516 HK	BUY	29.8	19.4	60,146	64.1	31.2	19.5	105.3	60.6
A-Living	3319 HK	HOLD	34.2	33.0	46,789	20.9	15.3	11.7	36.2	31.1
Greentown Services	2869 HK	HOLD	9.5	8.3	26,962	36.4	23.1	17.3	57.1	33.7
Ever Sunshine	1995 HK	BUY	22.2	15.0	25,089	59.3	33.2	21.9	78.4	51.5
Poly Services	6049 HK	HOLD	53.4	46.8	25,868	34.1	24.5	18.9	39.0	29.6
S-Enjoy	1755 HK	BUY	34.6	17.6	15,383	28.5	18.3	12.7	55.9	43.6
Powerlong Commercial	9909 HK	BUY	33.2	22.3	14,329	40.5	26.5	19.1	52.6	38.9
Excellence CM	6989 HK	BUY	14.9	6.7	8,191	19.3	12.7	9.2	51.9	38.7
Central China New Life	9983 HK	BUY	12.9	6.1	7,734	14.2	10.1	7.3	40.2	38.4
Sino-Ocean Services	6677 HK	BUY	7.1	5.0	5,920	13.2	11.6	8.1	13.7	43.8
New Hope Services	3658 HK	BUY	4.4	2.2	1,791	13.0	6.9	4.8	88.5	43.7
Redsun Services	1971 HK	BUY	9.4	4.1	1,693	18.1	8.9	6.0	103.0	48.3
COPH	2669 HK	NR	NA	6.9	22,778	31.9	24.8	19.3	28.3	29.0
Times Neighborhood	9928 HK	NR	NA	5.2	5,125	19.1	10.5	7.1	80.8	48.5
Aoyuan Healthy Life	3662 HK	NR	NA	4.9	3,522	12.6	8.1	5.9	57.0	35.9
Shimao Services	873 HK	NR	NA	17.8	42,126	43.0	27.4	16.7	56.9	64.1
KWG Living	3913 HK	NR	NA	7.0	14,024	32.5	17.0	10.6	91.8	60.5
Jinke Smart Services	9666 HK	NR	NA	46.0	30,031	32.5	22.9	15.2	41.7	50.7
Average						47.0	29.9	20.5	57.4	43.5

Source: Bloomberg, CMBIS estimates

Rating change and stock picks

We initiate Sunac Services and Evergrande Services at Buy rating. For Sunac Services, we think its strong third-party expansion capability together with the synergy from its parentco could help its fast overtaking to the Top 5 PM co. For Evergrande PM, our bear case study shows the downside is limited under the scenario of parentco's forced asset disposal. Our top picks are CR Mixc Lifestyle (Commerical operation beat in 1H21); Sunac Services; CGS and CIFI Ever Sunshine. The industry is currently trading at 19x 2022E PE, in line with industry average. **Risks:** further IPO funds selloff. 1H21 results miss;

Figure 14: Score card ranking

Metrics	Weights	Overall score	15%	15%	20%	20%	10%	20%	Target 2022E P/E
			Parentco support	GFA growth	VAS growth	Shopping mall contribution	Non-M&A expansion	Execution	
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
Sunac Service		60	70	80	50	20	50	90	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
Evergrande Services		41	50	50	50	20	20	50	15x
Languang Justbon		37	40	60	30	20	20	50	10x

Source: CMBIS

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