

China Property Service Sector

NDRC to support Community VAS segment via tax and social insurance reduction

The PM sector has been under pressure recently (down 6% in Oct, underperforming HSI by 9%). This is mainly attributed to the market concerns of less positive support, increasing costs from labors and social insurance and parentco risks. We think NDRC's document has re-affirmed its positive stance towards the sector. Especially, government may potentially reduce tax rate and social insurance to boost community VAS. As for the earnings visibility on parentco risks, the attractive M&As and government's push on home deliveries would help alleviate the market concerns. The whole sector is trading at 19x 2022E PE below historical average of 22x which looks attractive. Our top picks are CGS, Sunac Services, CIFI Evershine and CR Mixc Lifestyle.

What's New? On 3 Nov, the General Office of State Council published a [NDRC circular](#) intended to promote the community living service industry. The key takeaways include the following:

- The government stressed on the importance to **provide quality community living services**. Especially in regards to elderly care and housekeeping services. The circular mentioned 1) to speed up the development of assisted meals and home-based care services for the elderly and aim to gradually cover more than 80% of communities within five years. 2) To introduce supporting measures in terms of taxation, financing and other aspects to stimulate consumer demand.
- The circular also mentioned to **strengthen brand quality** and elevating service standards and crackdown on low-quality players.
- The circular introduced an array of **supporting measures** for the local government to adopt including taxation, fiscal and the actively use of re-finance, re-discount and other tools.

Our Reads:

- **Government policy in favor of community VAS development:** The implementation of these favorable policies will benefit the revenue collected via community VAS segment, which has already increased 74%/128%/96% YoY in 2018/19/20, which represents 12%/15%/17% of total revenue respectively. We estimate a continued increase of 77%/52% in 2021/22 (Figure 1). Currently, community VAS revenue mainly comes from home decoration and housekeeping services. The new initiatives would help boost the earnings visibility in the mid-long run.
- **Favoring industry leaders to secure higher market share.** With spill-over influence from the tightening policies of the property sector and previous regulations on the PM industry, SMEs are gradually fading out to join forces with industry leaders. For example, CGS' acquisition of R&F PM, Link Joy and Ever Sunshine's acquisition of Red Star Macalline PM and Meizhong Environment. There have been 20+ M&As in the sector with an average P/E at 2021E 13x (below the 28x secondary market 2021E P/E) since the start of September (Figure 2).
- **Tax and social insurance reduction:** From our view, we think there will likely be a decrease in tax rate and some fiscal support via social security cuts. These measures can effectively diminish the concern over rising human resource costs within SG&A directly related to social insurance. Combined with a favorable tax rate, earnings will be ensured.

OUTPERFORM
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Key Charts

Figure 1: Community VAS will continue to rise

Company Name	Community VAS Revenue (Rmb mn)							Community VAS YoY Growth				
	Ticker	2017	2018	2019	2020	2021E	2022E	2018	2019	2020	2021E	2022E
Ever Sunshine	1995 HK	110	198	483	790	1,334	2,095	80.3%	143.5%	63.5%	68.9%	57.1%
Country Garden Services	6098 HK	242	417	865	1,731	4,077	8,003	72.5%	107.4%	100.1%	135.5%	96.3%
Poly Services	6049 HK	319	623	1,154	1,748	2,401	3,001	95.3%	85.2%	51.4%	37.3%	25.0%
Powerlong Commercial	9909 HK	181	221	285	358	474	626	22.1%	29.0%	25.6%	32.5%	31.9%
Greentown Services	2869 HK	900	1,310	1,913	2,177	2,833	3,480	45.5%	46.0%	13.8%	30.1%	22.9%
S-Enjoy	1755 HK	43	48	176	498	803	1,169	10.6%	267.7%	182.8%	61.3%	45.6%
A-Living	3319 HK	102	289	485	1,053	1,761	2,721	183.7%	68.1%	117.0%	67.2%	54.6%
Excellence CM	6989 HK	89	133	204	359	791	1,238	49.8%	53.5%	76.2%	120.4%	56.5%
Central China New Life	9983 HK	24	62	309	366	639	902	158.3%	398.4%	18.4%	74.5%	41.2%
Redsun Services	1971 HK	12	15	27	110	265	490	21.7%	79.1%	309.4%	140.9%	84.9%
Average								74.0%	127.8%	95.8%	76.9%	51.6%

Source: CMBIS estimates

Figure 2: Recent M&A activities in the sector

Company	Ticker	Date	Target Company	Stake	Managed GFA mn sq m	Consideration RMB mn	PE	Guarantees (RMB, sq m)
CG Services	6098 HK	20-Sep	R&F PM	100%	69.40	10000	20x	NP: RMB0.5bn in 21 Managed GFA: 86mn in 21
		29-Sep	Link Joy	100%	65.22	3300	11x	NA
Ever Sunshine	1995 HK	15-Oct	Red Star Macalline PM	80%	NA	696	13x	NP: 14.11mn + 58mn × (1+10%) ^N × A/12; "A" = months between Profit Guarantee Period and 21 Dec 2021.
		30-Sep	Meizhong Environment	51%		58	10x	NP: RMB13.38mn/14.6mn/15.72mn in 22/23/24 Managed GFA: 72.9k in 22 / 74.2k in 23
Kangqiao Service	2205 HK	30-Sep	LiFeng PM	80%	18.04	164	16x	Managed GFA: 72.9k in 22 / 74.2k in 23
Yexing Group	1941 HK	24-Sep	WanHao PM	100%	2.50	47	20x	Managed GFA: 5mn in 21
Onewo	NA	18-Sep	Bon PM	97%	70.00	NA	8x-12x	NA
		28-Sep	ShangGang PM	51%	NA	NA	NA	NA
Greentown Service	2869 HK	21-Oct	Hangzhou Jiancheng	20%	NA	22	33x	NA
Longfor Smart Service	NA	16-Sep	JiuLongCang Mainland	100%	9.00	NA	NA	NA
Jinke Smart Services	9666 HK	10-Sep	TongYong PM	100%	NA	NA	NA	NA
		3-Sep	YiKang PM	100%				
Pearl River City Service	NA	3-Sep	ZhuJian PM	100%	NA	NA	NA	NA
		6-Sep	HuaQiao PM	100%				
		6-Sep	QiaoLinBao PM	100%				
Helenbergh PM	NA	30-Sep	XinHe PM	100%	NA	NA	NA	
Yincheng PM	NA	14-Oct	LouYuFang PM	100%	NA	NA	NA	NA
		12-Sep	YouLin PM	51%				
LanLv PM	NA	13-Sep	YingJia PM	51%	NA	NA	NA	
Ocean Homeplus	NA	1-Sep	YuanXin PM	49%	NA	NA	NA	
Average				82%			13x	

* means PE based on 2021 guarantee, the rest are based on 2020A

Source: CMBIS

Figure 3: Comps 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	58.1	186,813	57.5	34.7	23.6	65.8	46.6
CR MixC Lifestyle	1209 HK	BUY	56.0	39.6	90,273	74.6	49.3	35.5	51.5	38.7
A-Living	3319 HK	HOLD	34.2	23.5	33,299	14.9	10.8	8.3	37.8	30.7
Greentown Services	2869 HK	HOLD	9.5	7.5	24,334	32.8	20.9	16.0	57.1	30.9
Ever Sunshine	1995 HK	BUY	22.2	13.2	23,222	52.3	28.3	19.1	84.7	48.5
Poly Services	6049 HK	HOLD	53.4	41.5	22,936	30.2	21.3	16.7	41.9	27.5
S-Enjoy	1755 HK	BUY	34.6	14.3	12,396	23.0	14.7	10.3	56.2	43.8
Powerlong Commercial	9909 HK	BUY	33.2	18.0	11,602	32.8	20.6	15.0	58.9	37.9
Excellence CM	6989 HK	BUY	14.9	5.0	6,051	14.3	9.8	7.0	45.6	40.4
Central China New Life	9983 HK	BUY	12.9	5.1	6,477	11.9	8.5	6.3	39.2	36.0
Sino-Ocean Services	6677 HK	BUY	7.1	4.0	4,736	10.5	9.2	6.4	14.5	43.7
New Hope Services	3658 HK	BUY	4.4	2.1	1,669	12.2	7.1	4.6	70.7	53.8
Redsun Services	1971 HK	BUY	9.4	4.4	1,826	19.5	9.5	6.4	105.2	48.4
Evergrande Services	6666 HK	BUY	10.4	4.0	42,811	12.5	8.7	5.7	54.0	52.5
Sunac Services	1516 HK	BUY	29.8	15.2	47,192	50.4	24.5	15.3	105.3	60.6
COPH	2669 HK	NR	NA	7.0	23,008	32.2	24.9	19.1	29.3	30.6
Times Neighborhood	9928 HK	NR	NA	3.6	3,578	13.3	7.2	4.0	84.5	81.3
Aoyuan Healthy Life	3662 HK	NR	NA	3.7	2,702	9.7	6.3	4.4	55.2	42.0
Shimao Services	873 HK	NR	NA	13.8	34,309	33.4	21.2	13.3	57.6	59.2
KWG Living	3913 HK	NR	NA	5.1	10,351	24.0	11.8	7.6	103.0	56.2
Jinke Smart Services	9666 HK	NR	NA	37.4	24,384	26.4	18.0	11.9	46.8	50.8
Average						44.6	27.7	19.2	60.9	43.8

Source: Bloomberg, CMBIS

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