

Vanke - H (2202 HK)

Onewo's spin-off a strong value boost for Vanke

We think Vanke's move to spin off property management would provide a strong boost to its stretched valuation. Based on our estimates, Onewo could be worth HKD100bn valuation. As Vanke owns 63% stakes, this would unlock at least HKD63bn value or 25% of its current market cap. We think the market would react positively on Vanke and suggest investors to accumulate.

- Fundamentals walked through by numbers:** The Company has 566mn sq m GFA under management and 751mn sq m contracted GFA in 2020 (up 26% and 17% YoY). Revenue recorded for was RMB9.7bn/12.7bn/18.2bn in 2018/19/20 implying 30% CAGR. Operating margin was at 9% in 2020A and 10% in 2021E (+1ppt YoY).
- Fundamentals walked through by segment:** Onewo focuses on below three segments, which contribute 90% of the recorded revenue in 2020: 1) Residential Property Management: the Company currently has 3490 projects under management across 100 cities with growth guidance within 30%. In 2020, the recorded revenue for this section is RMB10.1bn accounting for 55.2% of total revenue. 2) Commercial and Facility Management: the Company currently manages GFA of 110mn sq m. In 2020, recorded revenue was RMB5.3bn (29.2% of total). The growth guidance for this segment is at 30-60%. 3) City Services: the Company currently manages 31 projects in 21 cities with growth guidance of more than 60%.
- Strengths and analysis:** Onewo has its strengths in its partial-SOE background (Shenzhen Metro owns 28% of Vanke) and in technology development with Vanrui and 5th Dimension Technologies, which could bring BPaaS service on top of its traditional PM services. Below are the key analysis: 1) **Reserved GFA** is below industry average: The Company has reserved GFA ratio is at 25% in 2020, while the industry average is 75% (Figure 3). 2) **Revenue growth** has slowed from 36% YoY in 2018 to 27% YoY for 2021E. 3) **Relatively low operating margin** at 9%/10% in 2020/21E, while industry leaders' at 20%. 4) **Weakening performance of parent co.:** In 3Q21, Vanke's contracted sales was RMB479.1bn (-2.8% YoY) and earnings was at RMB5.64bn, down 23.3% YoY.
- Valuation and comps:** Onewo's closest comp is CGS, which has 821mn sq m contracted GFA in 2020. Onewo has recorded RMB10.4bn revenue while CGS recorded RMB11.6bn in 1H21. However, Onewo's profit margin is below CGS, we think a conservative 2021E PE should be around 30x (CGS' 2021E PE at 34x).

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	297,083	367,894	419,112	497,475	521,397
YoY growth (%)	25.2	23.8	13.9	18.7	4.8
Net income (RMB mn)	33,773	38,872	41,516	51,212	53,879
EPS (RMB)	3.06	3.47	3.92	4.41	4.64
YoY growth (%)	20.4	13.3	4.3	12.8	5.2
Consensus EPS (RMB)	N.A.	N.A.	N.A.	3.28	3.38
P/E (x)	4.6	4.1	3.6	3.2	3.0
P/B (x)	1.0	0.8	0.7	0.6	0.5
Yield (%)	3.3	3.3	4.1	4.6	4.9
ROE (%)	21.7	20.7	19.6	19.3	17.8
Net gearing (%)	30.9	42.2	28.1	23.2	30.6

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$33.92**
 (Previous TP **HK\$33.92**)
 Up/downside **+99.3%**
 Current Price **HK\$17.02**

China Property Sector

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Stock Data

Mkt Cap (HK\$ mn)	243,144
Avg 3 mths t/o (HK\$ mn)	183.51
52w High/Low (HK\$)	35.00/ 16.84
Total Issued Shares (mn)	1,901(H) 9,724(A)

Source: Bloomberg

Shareholding Structure

Shenzhen Metro	27.61%
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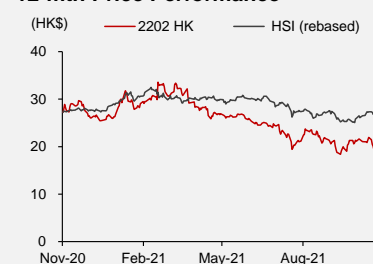
Source: Company data, CMBIS

Share Performance

	Absolute	Relative
1-mth	-20.3%	-20.8%
3-mth	-19.5%	-15.3%
6-mth	-36.8%	-27.3%
12-mth	-38.0%	-35.9%

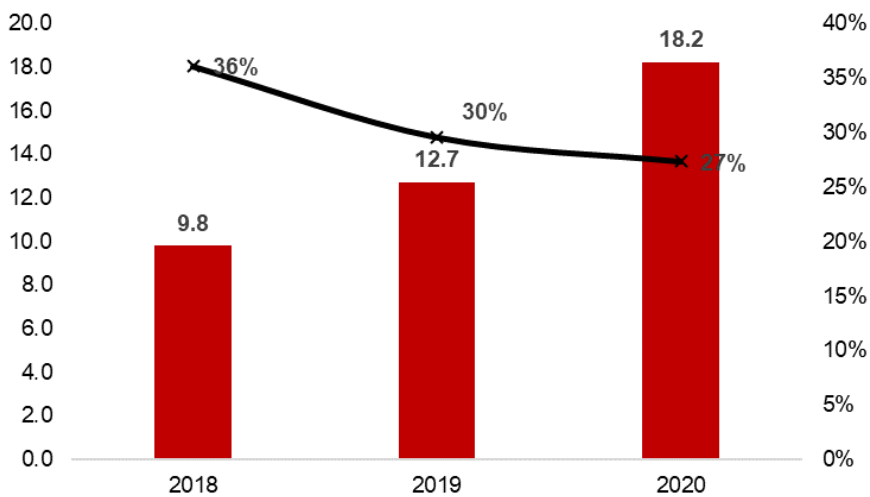
Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

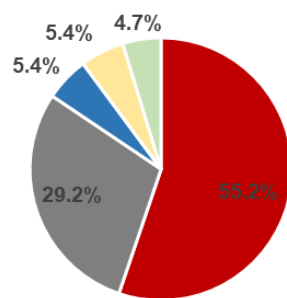
Auditor: PricewaterhouseCoopers

Figure 1: Revenue and growth for Onewo

Source: Company data, CMBIS estimates

Figure 2: Revenue split in 2020 with residential as dominant segment

Revenue Split in 2020



- Residential
- Commercial and facility
- City services
- Community life service
- Onewo growth

Source: Company data, CMBIS estimates

Figure 3: GFA reserve ratio

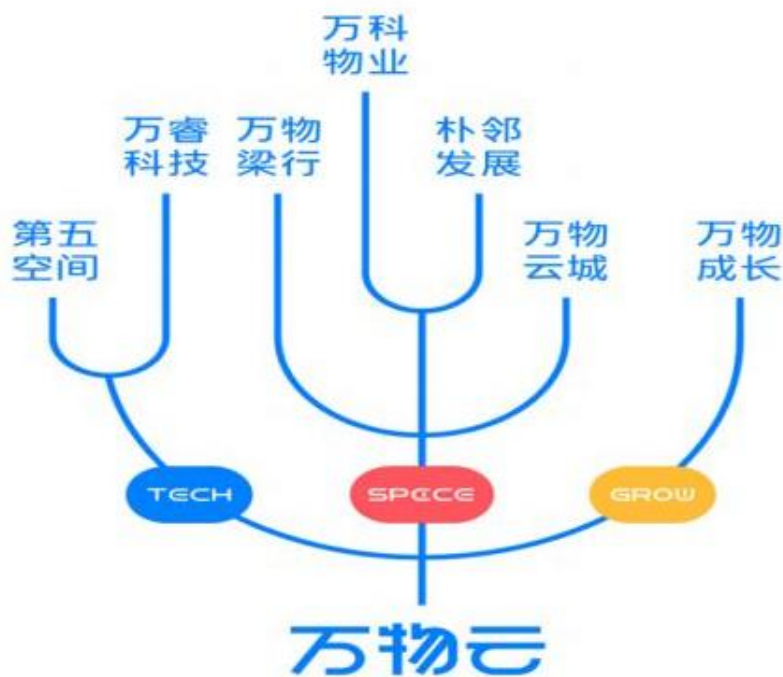
Company Name	Ticker	2017	2018	2019	2020	2021E	2022E
CR Mixc Lifestyle	1209 HK	9%	15%	17%	20%	17%	14%
Ever Sunshine	1995 HK	26%	63%	70%	78%	46%	34%
Country Garden Services	6098 HK	168%	178%	148%	117%	108%	100%
Poly Services	6049 HK	74%	90%	74%	49%	49%	49%
S-Enjoy	1755 HK	87%	162%	154%	104%	70%	60%
A-Living	3319 HK	134%	104%	69%	39%	39%	37%
Central China New Life	9983 HK	68%	174%	101%	87%	69%	57%
Sunac Services	1516 HK	187%	239%	198%	95%	63%	48%
Evergrande Services	6666 HK	136%	128%	112%	88%	64%	50%
Average		99%	128%	105%	75%	58%	50%

Source: Company data, CMBIS estimates

Figure 4: Industry comps

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	56.4	181,503	55.8	33.7	23.0	65.8	46.6
CR MixC Lifestyle	1209 HK	BUY	56.0	38.3	87,306	72.2	47.6	34.3	51.5	38.7
A-Living	3319 HK	HOLD	34.2	22.4	31,808	14.2	10.3	7.9	37.9	30.7
Greentown Services	2869 HK	HOLD	9.5	7.3	23,588	31.8	20.3	15.5	57.1	30.6
Ever Sunshine	1995 HK	BUY	22.2	12.8	22,380	50.4	27.2	18.3	85.1	48.6
Poly Services	6049 HK	HOLD	53.4	41.2	22,797	30.0	21.2	16.6	41.9	27.5
S-Enjoy	1755 HK	BUY	34.6	14.0	12,153	22.6	14.4	10.0	56.4	43.8
Powerlong Commercial	9909 HK	BUY	33.2	17.3	11,113	31.4	19.8	14.3	58.9	37.9
Excellence CM	6989 HK	BUY	14.9	4.8	5,905	13.9	9.6	6.8	45.6	40.4
Central China New Life	9983 HK	BUY	12.9	4.9	6,223	11.4	8.2	6.0	39.2	36.2
Sino-Ocean Services	6677 HK	BUY	7.1	3.9	4,629	10.3	9.0	6.3	14.5	43.7
New Hope Services	3658 HK	BUY	4.4	2.0	1,661	12.1	7.1	4.6	70.7	53.8
Redsun Services	1971 HK	BUY	9.4	4.4	1,822	19.5	9.5	6.4	105.2	48.4
Evergrande Services	6666 HK	BUY	10.4	3.8	41,189	12.0	8.4	5.5	54.0	52.5
Sunac Services	1516 HK	BUY	29.8	14.4	44,712	47.7	23.3	14.5	105.3	60.6
COPH	2669 HK	NR	NA	6.7	21,923	30.7	23.7	18.2	29.3	30.6
Times Neighborhood	9928 HK	NR	NA	3.5	3,470	12.9	7.0	3.9	84.5	81.3
Aoyuan Healthy Life	3662 HK	NR	NA	3.7	2,709	9.7	6.3	4.4	55.2	42.0
Shimao Services	873 HK	NR	NA	13.0	32,177	31.3	19.8	12.5	57.9	59.1
KWG Living	3913 HK	NR	NA	5.2	10,452	24.2	11.9	7.6	103.0	56.2
Jinke Smart Services	9666 HK	NR	NA	36.7	23,927	25.9	17.6	11.7	47.0	50.9
Average						43.1	26.7	18.6	60.9	43.8

Source: Company data, CMBIS estimates

Figure 5: Onewo has a wider array of services than its former self Vanke Services

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	297,083	367,894	442,402	497,475	521,397
Property development	278,083	340,582	408,466	456,925	472,927
Construction	3,411	7,299	8,904	10,863	13,253
Property services	9,796	12,700	16,256	19,507	23,409
Other business	5,793	7,313	8,775	10,179	11,808
Cost of sales	(187,131)	(235,697)	(301,577)	(339,431)	(356,227)
Gross profit	109,952	132,197	140,825	158,044	165,171
Other income and gains	3,585	5,687	5,753	6,637	6,854
Distribution expenses	(7,868)	(9,044)	(10,618)	(11,442)	(11,992)
Administrative expenses	(14,590)	(15,740)	(17,696)	(18,407)	(19,292)
Other expenses	(2,113)	(1,518)	(2,212)	(2,487)	(2,607)
Operating profit	88,966	111,581	116,052	132,345	138,134
Finance expenses	(8,181)	(9,255)	(9,337)	(10,175)	(11,149)
Associates/JV	6,280	3,791	7,780	8,240	8,240
Exceptional	0	0	0	0	0
Pre-tax profit	87,065	106,116	114,494	130,411	135,225
Profits tax	(37,793)	(50,985)	(51,253)	(57,948)	(60,096)
Minority interest	(15,500)	(16,260)	(18,500)	(21,250)	(21,250)
Perpetual	0	0	0	0	0
Net profit	33,773	38,872	44,742	51,212	53,879
Core profit	33,773	38,872	44,742	51,212	53,879

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
EBIT	88,966	111,581	116,052	132,345	138,134
Depreciation and amortization	2,922	6,306	5,940	5,800	5,860
Change in working capital	(21,185)	(26,226)	(50,844)	(86,000)	(97,000)
Income tax paid	(36,592)	(42,868)	(64,465)	(56,318)	(59,926)
Others	(493)	(3,106)	15,797	33,458	6,234
Net cash from operating	33,618	45,687	22,479	29,285	(6,698)
Capex	(18,486)	(10,057)	(5,242)	(6,100)	(7,060)
Associates/JV	(45,840)	(27,925)	(10,080)	(7,800)	(8,200)
Other	(3,038)	9,355	3,844	4,061	0
Net cash from investing	(67,364)	(28,627)	(11,477)	(9,839)	(15,260)
Equity raised	0	6,643	7,165	0	0
Change of Debts	61,181	(7,095)	27,949	21,000	36,000
Dividend paid	(40,249)	(36,823)	(11,811)	(14,467)	(16,388)
Other	23,866	3,937	0	0	0
Net cash from financing	44,798	(33,338)	23,303	6,533	19,612
Net change in cash	11,051	(16,278)	34,305	25,980	(2,346)
Cash at the beginning	164,326	175,668	159,739	194,294	220,524
Exchange difference	291	349	250	250	250
Cash at the end	175,668	159,739	194,294	220,524	218,428
Pledged deposit	12,749	6,456	6,152	6,152	6,152
Cash at BS	188,417	166,195	200,446	226,676	224,580

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	233,508	290,940	301,500	314,400	330,100
Fixed asset	22,645	29,698	29,000	29,300	30,500
Investment properties	25,898	94,521	98,500	104,000	112,000
Associates/JV	129,528	130,476	140,000	146,000	152,000
Intangible assets	1,015	786	800	800	800
Other non-current assets	54,421	35,459	33,200	34,300	34,800
Current assets	1,295,156	1,439,063	1,532,446	1,676,476	1,793,580
Cash	188,417	166,195	200,446	226,676	224,580
Account receivable	331,839	351,617	362,000	388,000	420,000
Inventories	754,310	901,807	950,000	1,040,000	1,125,000
Other current assets	20,590	19,445	20,000	21,800	24,000
Current liabilities	1,121,914	1,272,610	1,308,000	1,402,500	1,461,500
Borrowings	93,183	95,086	95,000	98,000	100,000
Trade and other payables	486,726	542,268	550,000	580,000	600,000
Contract liabilities	504,711	577,047	623,000	683,000	720,000
Deferred taxation	37,293	56,783	40,000	41,500	41,500
Other current liabilities	0	1,426	0	0	0
Non-current liabilities	171,129	186,814	217,700	237,130	272,300
Borrowings	168,024	185,243	192,000	210,000	244,000
Other non-current liabilities	3,105	1,571	25,700	27,130	28,300
Shareholders' equity	155,764	188,058	228,246	264,846	301,880
Minority interest	79,857	82,521	80,000	86,400	88,000
Perpetual bond	0	0	0	0	0
Total equity	235,621	270,579	308,246	351,246	389,880

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Property development	93.6	92.6	92.3	91.8	90.7
Construction	1.1	2.0	2.0	2.2	2.5
Property services	3.3	3.5	3.7	3.9	4.5
Other business	1.9	2.0	2.0	2.0	2.3
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	37.0	35.9	31.8	31.8	31.7
Pre-tax margin	29.9	30.3	26.2	26.6	26.5
Net margin	11.4	10.6	10.1	10.3	10.3
Effective tax rate	43.4	48.0	44.8	44.4	44.4
Balance sheet ratios					
Current ratio (x)	1.2	1.1	1.2	1.2	1.2
Receivable day	407.7	348.9	298.7	284.7	294.0
Payable day	598.0	538.0	453.8	425.5	420.0
Inventory day	1471.3	1396.5	1149.8	1118.3	1152.7
Net gearing ratio (%)	30.9	42.2	28.1	23.2	30.6
Returns (%)					
ROE	21.7	20.7	19.6	19.3	17.8
ROA	3.2	3.2	3.4	3.6	3.5
Per share data					
EPS (RMB)	3.06	3.47	3.92	4.41	4.64
DPS (RMB)	1.05	1.05	1.28	1.45	1.56
BVPS (RMB)	14.11	16.64	19.65	22.80	25.98

Source: Company data, CMBIS estimates

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