

Greentown Service (2869 HK)

Faster conversion rate is the key

We think its re-rating will mainly lie on faster conversion rate from reserved GFA to managed GFA as GFA determines both growth of basic PM and community services. However, with the downtrend of property sector, we only expect the conversion rate to pick up in 23/24E which could help boost the growth to get closer to its 2025 plan. Maintain Hold rating.

- 2021 earnings in line:** Greentown service delivered 20% growth in 2021 earnings at RMB846mn, in line with its recent guidance. The revenue grew 24.3% YoY to RMB12.6bn, mainly contributed by consulting service (+31% YoY) and Community living service (+30% YoY). GPM/NPM narrowed 0.5/0.2 ppt YoY to 18.5% and 7.1% in 2021. It declared a dividend (final+special) of HK\$0.20/share (flat YoY), representing 63% payout ratio (-13ppts YoY).
- Visibility of 2025 plan (revenue to jump 5 times in 5 years) is low at this stage:** Despite a slow start of 2021 (only 24% YoY growth), the Company will still try their best to reach their 2025 plan (implying 37% YoY CAGR). However, with the sharp down cycle of property sector, management also admits the challenges ahead. This can be seen from the guidance of only 28-35% revenue growth in 2022E. Together with the higher base, we think the visibility could be low to achieve its ambitious plan in 2025E.
- How to accelerate the growth?** We think the key is the conversion rate as the Company's reserved/managed GFA ratio >1 (industry average at 50%). In 2021, managed GFA only grew 21% implying only 19% of 2020 reserved GFA converted, lower than the historical average of 22%. This was mainly impacted by the property down cycle that not only has slowed down the delivery, but also led to more existing projects being exited by Greentown on potential risks. Looking forward, we think it will improve in 2023/24 and thus assume a higher conversion rate to imply 26%/26% YoY basic PM revenue growth in 2023/24E.
- Overhang may be removed after education business to reach breakeven this year:** The cultural & education segment in 2021 has grown 45% YoY to RMB460mn. Management is confident to achieve breakeven this year as its MAG operation in Australia (82% of overall education revenue) has resumed business as usual. This may remove the overhang of loss making.
- Maintain Hold:** We expect 2022/23E revenue to grow by 28/26% YoY and a stable GP Margin at 18-19%. We see NP to increase by 26/21% YoY in 2022/23E. Our new TP is HK\$7.92, using 20x 22E PE (industry average).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	10,106	12,566	16,065	20,181	25,163
YoY growth (%)	17.8	24.3	27.8	25.6	24.7
Net income (RMB mn)	710	846	1,064	1,291	1,516
EPS (RMB)	0.23	0.26	0.33	0.40	0.47
YoY growth (%)	36	12	26	21	17
Consensus EPS (RMB)	N.A.	N.A.	0.17	0.23	N.A.
P/E (x)	25.6	22.9	18.2	15.0	12.8
P/B (x)	2.9	3.2	2.9	2.6	2.3
Yield (%)	1.2	2.8	2.7	2.3	2.7
ROE (%)	10.4	12.1	14.1	15.4	16.2
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$7.92
(Previous TP)	HK\$9.11)
Up/Downside	+7.3%
Current Price	HK\$7.38

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	25,006
Avg 3 mths t/o (HK\$ mn)	62.81
52w High/Low (HK\$)	10.66/5.42
Total Issued Shares (mn)	2,791

Source: Bloomberg

Shareholding Structure

Orchid Garden	36.7%
LI, Hairong	21.3%
Free float	42.0%

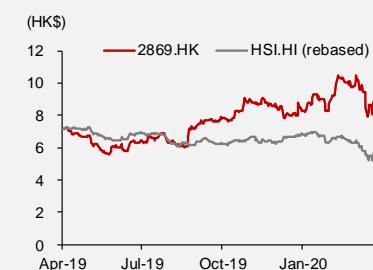
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.5%	3.4%
3-mth	7.0%	31.3%
6-mth	13.7%	27.2%
12-mth	25.5%	59.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Figure 1: 2021 results summary

RMB mn	2020	2021	YoY	Diff. vs. Estimate
Revenue	10,106	12,566	24%	4%
- PM	6,429	7,770	21%	
- Consultancy	1,500	1,960	31%	
- Community living services	2,177	2,836	30%	
Gross profit	1,923	2,331	21%	
Net profit	710	846	19%	12%
EPS (RMB)	0.25	0.26	3%	
DPS (RMB)	0.08	0.17	112%	
Dividend payout ratio	31%	64%	33 ppt	
GP Margin	19.0%	18.5%	-0.5 ppt	0.8 ppt
Net Margin	7.0%	6.7%	-0.3 ppt	0.5 ppt
Managed GFA (mn sq m)	225.9	304.1	35%	
Contracted GFA (mn sq m)	478.3	651.5	36%	

Source: Company data, CMBIGM

- **Basic PM Business** grew 21% YoY in 2021, mainly driven by average PM fee which hiked to RMB3.6/sq m/month in 2021 vs. RMB3.4/sq m/month according to the Company. Contribution from non-residential property increased 0.3ppt to 30.8% of total PM service fee in 2021.
- **Community living service** rose 30% YoY in 2021 to account for 23% of total revenue. It was mainly driven by the 46% YoY growth in community product and service (to RMB1,178mn in 2021) and the 45% YoY growth in cultural and education service (to RMB460mn in 2021), which was supported by slightly eased COVID-19 impact in both China and Australia in 2021.
- **Consulting service** rose 31% YoY in 2021 to account for 15.6% of total revenue. The segment gross profit margin contracted 2.6ppt to 30% mainly due to the intensified market competitions of property under construction service.

Figure 2: Greentown Valuation



Source: Bloomberg, CMBIGM

Figure 3: PM sector comps

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E			Net profit growth (%)	
						21A	22E	23E	22E	23E
Country Garden Services	6098 HK	BUY	91.2	32.9	110,695	19.6	13.5	9.6	49.6	38.5
CR MixC Lifestyle	1209 HK	BUY	56.0	36.0	82,056	43.2	30.9	22.9	37.7	34.4
A-Living	3319 HK	HOLD	34.2	11.9	16,898	5.6	4.5	3.6	25.6	25.0
Greentown Services	2869 HK	HOLD	7.9	7.4	23,954	22.9	18.2	15.0	30.3	24.1
Ever Sunshine	1995 HK	HOLD	12.7	10.0	17,455	21.7	15.4	11.2	43.4	38.1
Poly Services	6049 HK	HOLD	53.4	54.9	30,378	28.3	22.8	18.0	23.5	27.0
S-Enjoy	1755 HK	SELL	8.6	9.0	7,814	9.2	6.7	4.9	42.7	36.4
Powerlong Commercial	9909 HK	BUY	33.2	5.8	3,729	6.7	4.9	3.6	38.4	33.3
Excellence CM	6989 HK	BUY	14.9	3.8	4,576	7.5	5.0	3.7	35.5	30.0
Central China New Life	9983 HK	BUY	12.9	4.1	5,204	6.7	5.0	3.8	31.9	30.4
Sino-Ocean Services	6677 HK	BUY	7.1	3.7	4,416	8.7	6.0	4.4	37.9	36.5
New Hope Services	3658 HK	BUY	4.4	2.4	1,913	8.2	4.8	NA	55.5	NA
Redsun Services	1971 HK	BUY	9.4	3.0	1,257	6.5	4.4	3.1	50.2	44.1
Evergrande Services	6666 HK	BUY	10.4	2.3	24,865	5.6	4.2	3.2	32.1	31.2
Sunac Services	1516 HK	BUY	29.8	4.4	13,391	8.4	5.7	4.1	45.0	37.9
COPH	2669 HK	NR	NA	9.6	31,620	34.1	24.9	19.0	30.7	28.8
Times Neighborhood	9928 HK	NR	NA	2.2	2,159	4.4	2.4	2.0	39.9	30.1
Aoyuan Healthy Life	3662 HK	NR	NA	1.8	1,285	2.8	1.9	1.5	41.3	31.2
Shimao Services	873 HK	NR	NA	4.0	9,873	6.3	4.4	3.2	40.7	38.2
KWG Living	3913 HK	NR	NA	2.8	5,729	6.5	4.3	3.2	51.7	32.7
Jinke Smart Services	9666 HK	NR	NA	25.5	16,615	12.2	8.2	5.8	47.3	41.1
Average						22.6	16.4	12.2	39.4	33.8

Source: Bloomberg, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	10,106	12,566	16,065	20,181	25,163
Property management	6,429	7,770	9,709	12,208	15,386
Consultancy services	1,500	1,960	2,563	3,162	3,770
Community value-added	2,177	2,836	3,794	4,811	6,007
Cost of sales	(8,183)	(10,236)	(13,058)	(16,407)	(20,487)
Gross profit	1,923	2,331	3,007	3,773	4,676
Other income	138	98	139	70	37
Selling and marketing	(156)	(201)	(256)	(322)	(402)
Administrative expenses	(891)	(1,050)	(1,343)	(1,655)	(2,114)
Other expenses	(43)	(38)	(49)	(61)	(76)
Operating profit	970	1,150	1,497	1,805	2,122
Share from JCE	28	21	-	12	12
Finance cost	(0)	26	-	-	-
Exceptional	5	(5)	-	-	-
Pre-tax profit	1,003	1,191	1,497	1,817	2,134
Income tax	(262)	(301)	(378)	(459)	(539)
Profit for the year	741	890	1,120	1,358	1,595
Non-controlling interest	(30)	(44)	(56)	(67)	(79)
Net profit to shareholders	710	846	1,064	1,291	1,516

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before tax	1,003	1,191	1,497	1,817	2,134
D&A	145	181	12	12	12
Change in working capital	205	(410)	585	207	259
Income tax paid	(221)	(301)	(378)	(459)	(539)
Others	184	150	(22)	(36)	(12)
Cash flow from operating	1,316	812	1,694	1,541	1,854
CAPEX	(348)	(40)	(40)	(40)	(40)
Others	(1,917)	80	34	34	-
Cash flow from investing	(2,264)	40	(6)	(6)	(40)
Equity raised	-	-	-	-	-
Change of debts	(346)	-	-	-	-
Dividends paid	(223)	(542)	(532)	(452)	(531)
Others	3,200	(74)	(68)	(55)	(36)
Cash flow from financing	2,977	(616)	(600)	(507)	(566)
Net change in cash	2,029	236	1,088	1,029	1,247
Cash at the beginning of the year	2,641	4,437	4,673	5,762	6,790
FX differences	(233)	-	-	-	-
Cash at the end of the year	4,437	4,673	5,762	6,790	8,038

Key ratios

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	4,469	5,097	4,507	4,547	4,587
PP&E	695	773	642	662	682
Goodwill	284	451	451	451	451
Other intangible assets	362	430	351	359	367
Others	3,128	3,442	3,063	3,075	3,087
Current assets	8,609	9,278	11,318	13,391	7,865
Cash and cash equivalents	346	434	627	787	983
Trade and other receivables	1,990	3,055	3,447	4,330	5,399
Others	6,274	5,789	7,245	8,273	1,483
Total Asset	13,079	14,375	15,825	17,938	12,453
Current liabilities	4,686	5,789	6,953	8,204	9,727
Trade and other payables	2,963	3,706	4,876	6,127	7,650
Contract liabilities	1,112	1,343	1,343	1,343	1,343
Others	610	739	734	734	734
Non-current liabilities	1,281	1,216	1,292	1,247	1,211
Deferred tax liabilities	76	76	76	76	76
Others	1,205	1,139	1,215	1,171	1,135
Total liabilities	5,967	7,004	8,245	9,451	10,939
Shareholders' equity	6,821	7,019	7,551	8,391	9,376
Non-controlling interests	291	351	406	474	553
Total Equity	7,112	7,370	7,958	8,864	9,929

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Property management services	63.6	61.8	60.4	60.5	61.1
Consultancy services	14.8	15.6	16.0	15.7	15.0
Community value-added	21.5	22.6	23.6	23.8	23.9
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	19.0	18.5	18.7	18.7	18.6
Operating margin	9.6	9.2	9.3	8.9	8.4
Net margin	7.0	6.7	6.6	6.4	6.0
Effective tax rate	26.2	25.2	25.2	25.2	25.2
Growth (%)					
Revenue	17.8	24.3	27.8	25.6	24.7
Gross profit	24.3	21.2	29.0	25.5	23.9
Operating profit	61.3	18.6	30.2	20.5	17.6
Net profit	48.8	19.1	25.7	21.3	17.4
Balance sheet ratios					
Current ratio (x)	1.8	1.6	1.6	1.6	0.8
Receivable turnover days	78	78	78	78	78
Returns (%)					
ROE	10.4	12.1	14.1	15.4	16.2
ROA	5.4	5.9	6.7	7.2	12.2
Per share					
EPS (RMB)	0.23	0.26	0.33	0.40	0.47
DPS (RMB)	0.07	0.17	0.16	0.14	0.16
BVPS (RMB)	2.03	1.90	2.08	2.34	2.64

Source: Company data, CMBIGM estimates

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