25 Apr 2022

China Project Management Sector

How are we different from the market?

MARKET-PERFORM (Initiation)

We initiate project management (PJM) sector with a neutral view. Different from the market, we only see 8% industry growth CAGR in 2020-25E (vs. consensus's 20%) for commercial projects on declining land supply, smaller-than-expected demand pool and already-high penetration rate. Therefore, the future growth may gradually shift to the government projects for big social housing cycle. This would put Greentown management (9979 HK), the leader of government projects as our top pick. **Catalysts**: setup of social housing department; announcement of long-term 1:1 ratio between social and commercial housing. We put CC Management (9982 HK) on Hold rating for its high exposure to the property cycle.

- **Is PJM a growing sector? No as the maximal market size may shrink.** Different from the consensus**,** we expect a decline of maximal market size (defined as service fee of all annual new land acquisitions by non-Top 100 developers including LGTV) to RMB140bn in 2025 (-5% CAGR)**.** The key reasons behind are **1)** the decline of average new land supply in 2021-2030 (30% lower than 2015-20) according to land resource department's 2016-2030 plan. **2)** The market share (by land acquisitions) of small developers is also in a declining trend to c.45% due to supply side reform.

- **Can still low penetration rate support high growth: no as the actual penetration rate was already at 17% in 2020.** This is much higher than market-believed 4.6% because we use a narrower demand base (non-top 100 developers) as Top 100 developers are unlikely to use PJM services. With overall property industry already facing declining NPM to ~5%, even less developers can afford 3.5-4% of sales as service fees. As such, the industry growth is estimated at 8% 2020-25E CAGR (vs. consensus of 20%) based on 35% penetration rate by 2025E (already high).

- **Future growth engine shifts to demand of government projects strongly supported by special social housing loans and REITs.** 2022E would be a big year with social housing construction of 2.4mn units (vs. 942k in 2021). This may potentially bring RMB17bn service fee (by assuming 70 sq m/unit and RMB100/sq m service fee) to the overall industry. Look 2023 and beyond, we expect size of social housing to at least 3.2mn units, well supported by the policy (long-term 1:1 ratio target between social and commercial housing) and special social housing loans (supported by banks). This could further boost the second growth curve for companies like Greentown management and Gemdale. Additionally, distressed asset could be the surprise but we think it may take longer time for industry to scale up due to its complexity.

- **Intensified competition as traditional developers are stepping into this asset-light model.** It is a highly concentrated sector with Top 5 players owning 60% market share. However, amid property downcycle, more traditional developers (CIFI/Country Garden) has stepped into this area for diversification which may lead to intensified completion and lower profitability from current high margin (25% NPM). This may bring pressure to its ROE and thus impact the valuation. Another risk is that some PJM firms may provide indirect financing help to the project owner, which has potential downside.

- **Top picks: Greentown management.** We prefer market leaders that can benefit from big social housing cycle, market share gain and high bargain power via premium branding. Greentown management stands out with its national presence, 25% of its revenue from government side as well as its branding premium to improve ASP. CCM may wait to see its breakthrough outside Henan province.

China Project Management Sector

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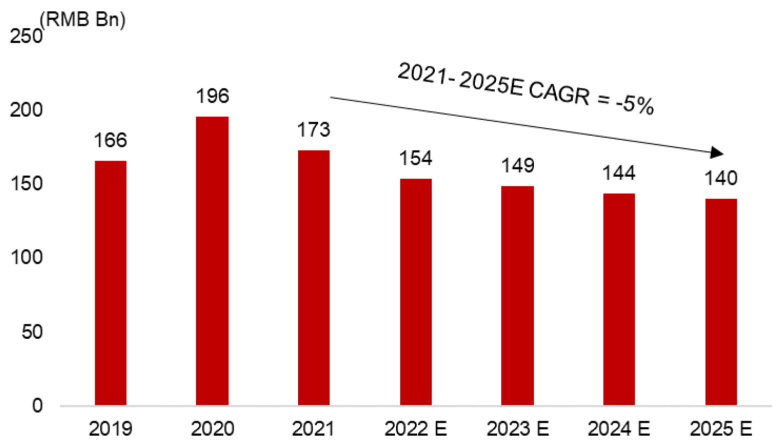
PJM's maximal market size	=	Annual land supply	*	% of lands acquired by non-Top 100 developers	*	Service fee
Trend of these 3 key drivers		Declining due to land resources department's 2016-2030 plan		Expect declining trend from 45% on supply side reform		relatively stable

Source: State Council, CMBIGM

Figure 2: Maximal market size of commercial projects is estimated in a declining trend



Source: State Council, CMBIGM

Figure 3: Penetration rate already high so the actual industry growth is only at single-digit growth

RMB bn	Market size: estimated service fee	Newly contracted GFA of PJM industry (mn sqm)	Estimated service fee of PJM industry	Penetration rate
2019	**166**	70.89	25.1	15%
2020	**196**	**83.9**	**33.1**	**17%**
2021	**173**	n.a.	n.a.	n.a.
2022E	**154**	n.a.	n.a.	n.a.
2023E	**149**	n.a.	n.a.	n.a.
2024E	**144**	n.a.	n.a.	n.a.
2025E	**140**	**111.4**	**48.9**	**35%**
	21-25 CAGR: -5%	**20-25 CAGR: 5.8%**	**20-25 CAGR：8.1%**	

Source: State Council, CMBIGM

Figure 4: Growth will shift to government projects such as social housing in 2022E

(RMB bn)	No. of units ('000)	GFA (k sqm)	Estimated service fee
2021	942	65940	6.6
2022E	2400	168000	16.8
2023E and beyond	3158	221060	22.1

Source: MOHURD, CMBIGM

How are we different from market consensus?

Key debate 1: Is PJM a growth sector and resilient to property cycle?

Our answer is No. Different from the consensus, our calculation shows that **PJM's maximal market size could shrink towards 2025**. The key difference lies in the definition of PJM's market (below Figure 5): **1)** Instead of all landowners, we think the real demand comes from non-Top100 developers, who lack of management experience and branding. Given the current supply side reform amid debt crisis, we expect non-Top 100 developers' market share (by land acquisitions) to be gradually decline. **2)** Also the total land supply in 2022-2030E is in a declining trend according to land resources department's 2016-2030E plan. Based on our estimate, **the maximal market size (demand pool) is to shrink at a -5% CAGR** from RMB173bn in 2021 to RMB140bn in 2025. Therefore, this also shows PJM industry is **not so resistant to the fluctuation of the property market** (as the consensus) as three of its key drivers are following the property sector.

Figure 5: Definition of PJM's maximal market size

PJM's maximal market size	=	Annual land supply	*	% of lands acquired by non-Top 100 developers	*	Service fee
Trend of these 3 key drivers		Declining due to land resources department's 2016-2030 plan		Expect declining trend from 45% on supply side reform		relatively stable

Source: State Council, CMBIGM

Below are our calculations in details:

1) **Total new land supply to decline in 2021-2030**

According to National Land Planning (2016-2030) of State Council, cumulative land supply in 2021-2030 will be 1.4x of that in 2016-2020, suggesting the average land supply per year to decrease -29% in 2021-2030 from in 2016-2020, equals to a -5% YoY decline in new land supply from 2022E to 2030E if we use straight-line method.

Figure 6: Cumulative land supply change

	2016-2020	2021-2030	Growth
New land supply (mn sq.m)	4,971	7,031	41%
Avg. New land supply per year	994	703	-29%

Source: State Council, CMBIGM

Figure 7: Land supply change

RMB bn	GFA of land sold in 300 cities (mn sq. m)	YoY growth
2015	774	-24%
2016	750	-3%
2017	930	24%
2018	1,024	10%
2019	1,095	7%
2020	1,172	7%
2021	877	-25%
2022E	833	-5%
2023E	791	-5%
2024E	751	-5%
2025E	714	-5%
2026E	678	-5%
2027E	644	-5%
2028E	611	-5%
2029E	581	-5%
2030E	551	-5%

Source: State Council, CMBIGM

2) **Market share of non-Top 100 developers by land acquisitions may decline**

We see non-top 100 developers (including local SOEs) as the target customer of PJM service as top-100 players have no such demand in our view. From 2019-2021, non-top 100 developers accounted for only 42-49% of total land supply in 300 cities in terms of transaction value. Their market share is likely to decline at 45% level due to supply side reform.

Figure 8: SMDs market share by land acquisition

RMB bn	GFA of land sold in 300 cities (mn sq. m)	yoy growth	Land ASP (RMB/sq.m)	300 cities' Land transaction value	Land acquisition: Top 100 developers	Land acquisition: Small developers	Market share of SMDs
2019	1,095	7%	4,363	4,778	2,736	2,042	43%
2020	1,172	7%	4,574	5,360	3,089	2,271	42%
2021	877	-25%	5,522	4,844	2,483	2,361	49%
2022E	833	-5%	5,632	4,692	2,599	2,093	45%
2023E	791	-5%	5,745	4,545	2,517	2,028	45%
2024E	751	-5%	5,860	4,403	2,439	1,965	45%
2025E	714	-5%	5,977	4,266	2,363	1,903	45%

Source: State Council, CMBIGM

3) **The maximal market size (demand pool) is to shrink at a -5% CAGR in 2021-25E**

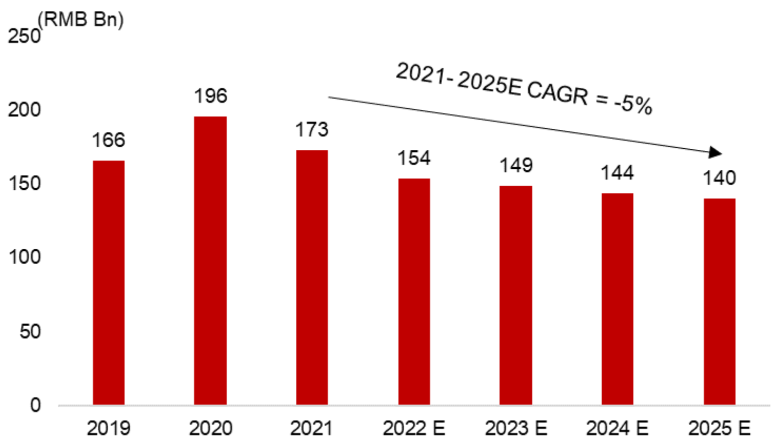
We assume service fee rate to be stable at 4% of sales from 2020 to 2025E and the sales ASP to increase 2% YoY from 2022-25E. The commercial PJM market size is seeing contracting from RMB173bn in 2021 to RMB140bn 2025 with a CAGR of -5%.

Figure 9: Commercial PJM market size shrinking

RMB bn	GFA of land sold in 300 cities (mn sq. m)	Avg. property selling price (RMB/sq.m)	Market share of SMDs	Property sales - PJM targeting customer	Service fee rate	Market size: estimated service fee
2019	1,095	9,310	43%	4,358	3.8%	**166**
2020	1,172	9,860	42%	4,895	4.0%	**196**
2021	877	10,139	49%	4,335	4.0%	**173**
2022E	833	10,342	45%	3,844	4.0%	**154**
2023E	791	10,549	45%	3,724	4.0%	**149**
2024E	751	10,760	45%	3,607	4.0%	**144**
2025E	714	10,975	45%	3,494	4.0%	**140**
					2021-2025 CAGR:	**-5%**

Source: State Council, CMBIGM

Figure 10: Maximal market size



Source: State Council, CMBIGM

Key debate 2: Is PJM's penentration rate still low to support growth?

No, our calculation shows penetration rate is already high (our estimation 17% vs. market consensus 4.6%). Our penetration rate was calculated as the "Total service fee of the industry" divided by "Service fee from land acquired by non-Top 100 developers". In 2020, industry has 83.9mn sq. m of newly contracted GFA with estimated service fee of RMB33bn, where new land acquired by SMDs is supposed to bring an estimated service fee of RMB196bn, resulted in a penetration rate of 17%. This is much higher than 4.58% calculated by China Index Academy (CIA) by using total urban housing demand as the dominator. Therefore, we think further room to grow would be limited. Based on our growth forecasts on two major players (Greentown Mgmt. and CCM), and an assumption of 2% YoY market share increase for both of them in 2021-25E, industry penetration is likely to reach 35% in 2025E. This implies one of every three plots will be handled by PJM firms and it seems high already.

Figure 11: Calculation of real penetration rate

RMB bn	Market size: estimated service fee	Newly contracted GFA of PJM industry (mn sqm)	Estimated service fee of PJM industry	Penetration rate
2019	166	70.89	25.1	15%
2020	196	83.9	33.1	17%

Source: State Council, CMBIGM

Therefore, expect single-digit industry growth in 2020-25E (6% vs. consensus of 21%): Based on the assumptions, service fee of PJM industry to grow representing 8% 2020-25 CAGR respectively vs. market consensus of 21%.

Figure 12: Estimated PJM industry growth

RMB bn	Market size: estimated service fee	Newly contracted GFA of PJM industry (mn sqm)	Estimated service fee of PJM industry	Penetration rate
2019	166	70.89	25.1	15%
2020	196	83.9	33.1	17%
2021	173	n.a.	n.a.	n.a.
2022E	154	n.a.	n.a.	n.a.
2023E	149	n.a.	n.a.	n.a.
2024E	144	n.a.	n.a.	n.a.
2025E	140	111.4	48.9	35%
	21-25 CAGR: -5%	20-25 CAGR: 5.8%	20-25 CAGR：8.1%	

Source: State Council, CMBIGM

Investment thesis

New growth engine : government projects will be the key driver

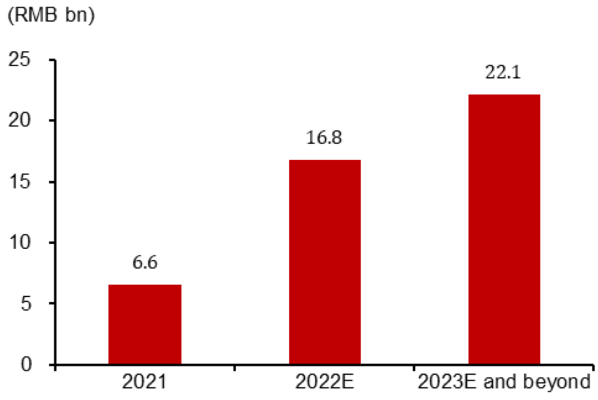
We expect PJM demand from government projects will become the second growth curve for the industry especially in 2022E. 1) MOHURD announced to construct 6.5mn units of affordable rental housing during 2021-2025, later PBOC announced to give finance support by lifting loan quota for affordable rental housing-related projects (report). We believe the government will go beyond 6.5mn units as their long-term target is 1:1 ratio between commercial and social housing for the annual supply. That implies social housing may reach >4mn units per year in the long run. 2) There will be a new start of 2.4mn units (+155% YoY) in 2022E, according to MOHURD. We assume GFA per unit to be 70 sq. m and PJM service fee at RMB100/sq. m. The plan in 2022 may potentially bring RMB17bn service fee to the overall PJM industry suggesting **2022 to be a big year for PJM companies** to develop a second growth curve, especially those who already have market presence in this area like Greentown Mgmt. and Gemdale. Greentown Mgmt. is for now the largest PJM service provider in this field with 25% of its revenue coming from government projects by the end of FY21.

Figure 13: Estimated service fee for affordable rental housing

(RMB bn)	No. of units ('000)	GFA (k sqm)	Estimated service fee
2021	942	65940	6.6
2022E	2400	168000	16.8
2023E and beyond	3158	221060	22.1

Source: MOHURD, CMBIGM

Figure 14: Estimated service fee for affordable rental housing



Source: MOHURD, CMBIGM

PJM demand from distressed asset could be the surprise in the long term.

We are not surprised that **increasing demand will come from Financial Institutions like AMCs** who is encouraged to help on accelerating the disposal of distressed assets in real estate industry during the market downturn. As we can see from the non-performing assets by industry that AMCs dealt with in 2020, 46%-52% of total were from real estate industry. We roughly assume return on such asset is around 10%, based on acquisition amount disclosed by China Cinda and China Huarong, estimated service fee could be RMB12bn for PJM company to saturate. Suppose China Huarong accounted for around 40% of the total non-performing assets disposal market which indicates RMB21bn PJM service fee is available for PJM players to generate.

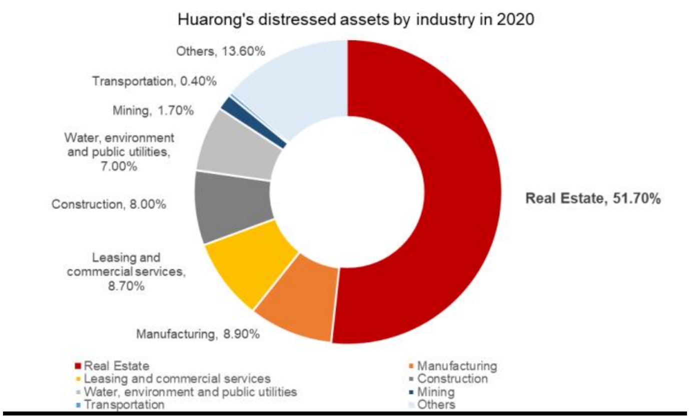
While we think **the PJM industry may take longer to find a standardized solution to cooperation with FIs** due to the complex relationship between the parties involved in distressed assets. We learned that Greentown Mgmt. is trying to explore a standardized cooperation model with AMCs like China Orient. And CCM had strategic agreement with Henan Asset Management.

Figure 15: Estimated service fee from distressed assets

RMB bn	Acquisition amount	Return	Sales amount	service fee rate	Estimated service fee
China Cinda	88.67	10%	98	4%	3.9
China Huarong	188.35	10%	207	4%	8.3
Subtotal					**12.2**
Total					**20.7**

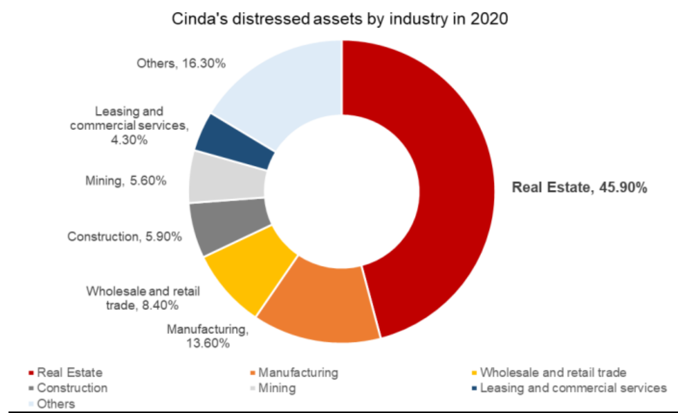
Source: Company data, CMBIGM

Figure 16: China Huarong's distressed assets by industry in 2020



Source: China Index Academy, NBS, CMBIGM

Figure 17: China Cinda's distressed assets by industry in 2020



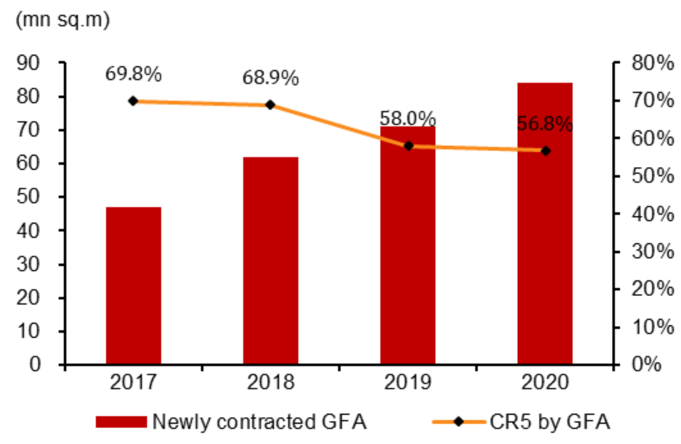
Source: China Index Academy, CMBIGM

However, profitability may be under pressure with more traditional developers into this business

1) **Highly-concentrated market could face challenges**

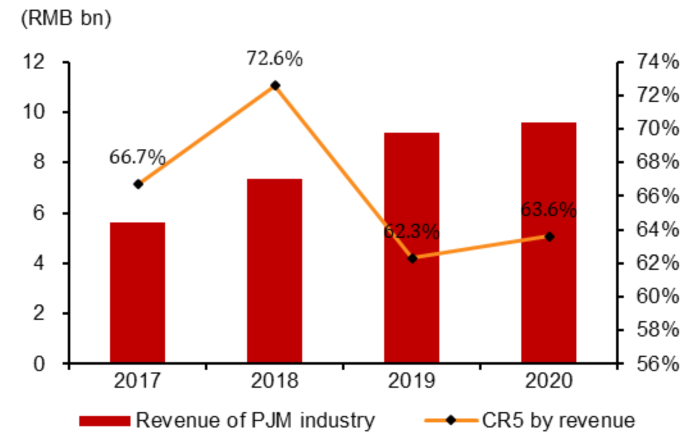
According to data from CIA, the industry is highly concentrated where the top 5 companies captured a market share of 56.8% and 63.6% in terms of newly contracted GFA and revenue in 2020.

Figure 18: PJM industry CR5 by newly contracted GFA



Source: CREIS, Company data, CMBIGM

Figure 19: PJM industry CR5 by revenue



Source: CREIS, Company data, CMBIGM

2) **More traditional developers are into this business to diversify**

Amid property downcycle, more traditional developers (CIFI/Country Garden) has stepped into this area for diversification which may lead to intensified completion. For example, Country Garden announced at FY21 results briefing that company believe social security housing will provide opportunity for company to develop government PJM business and the company is intended to step in. CIFI stated that the company signed 5 new projects with total GFA of 1.2 mn sq.m in Mar-22 and is aiming to have 40-50 contracted projects in FY22. Company is mainly involved in commercial PJM business and will future step in government PJM and capital PJM. Several other players gradually transform from a traditional development-dominated company into a PJM business-dominated, asset-light company who do not need to pay for land acquisition and construction process.

3) **Therefore, we think the profitability may suffer in the medium to long term**

With more players into this area, we believe it will impact the profitability in the commercial projects**.** According to CIA, 13 PJM companies reported an average net profit margin of 25.4% in 2020, much higher than 14.5% for community service providers (avg. of 100 property management companies) and 8.9% for traditional developers (avg. of 23 developers). **We expect PJM industry to see some margin decline from current 25%, however it may not go down too quickly as**

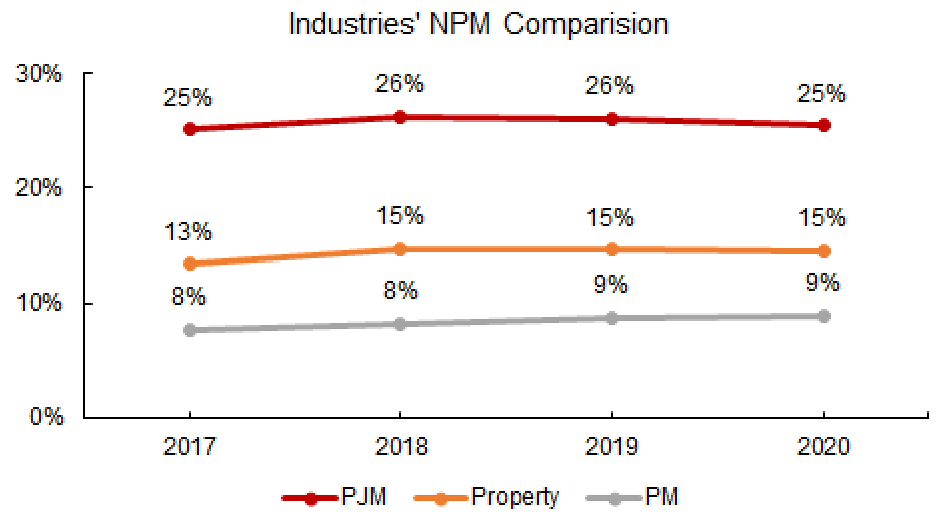
1) **Government PJM have slightly higher margin than commercial ones**.

   We expect government projects have higher revenue contribution to the PJM industry, the segment has witnessed a slightly higher margin (2-3ppt higher) than commercial ones, given A) Government projects does not require consulting services for purchasing land. B) Government projects do not need marketing and sales service which is the most personnel-intensive part of the PJM service. C) comparing to customized service to SMDs, government PJM services are more standardized that enables the same team to cover the services of multiple projects.

2) **Economy of scale**

The essential part of the service is usually completed at the group level. The regional and project level are mainly responsible for implementation. With the expansion of business PJM industry is more likely to enjoy the economy of scale that benefit the margin.

Figure 20: Net profit margin for developers, PM company and PJM company



Source: CIA

Asset-light in nature, some may need efforts to enjoy this reputation

We expect players with decent organic growth to enjoy valuation of "asset-light" companies, others may need more efforts. PJM industry enjoys reputation of "asset-light" as they do not provide funds for land acquisition and construction, which contributed to the rapid expansion of the industry in past few years. Some players developed good organic growth and are deserved to be valued as an "asset-light" company, while those who rely on the assets invested by the parent Co. or affiliated companies may need more efforts to benefit from it. While the positive is that the industry is gradually moving into this direction as it allows the company to expand its business faster than asset-heavy way and bear less risks linked to broader property market.

Top picks: Greentown Mgmt. > CCM

- We prefer Greentown Mgmt. who takes almost 1/4 of the PJM market and is likely to gain more given its rich experience in commercial PJM. The company's long history in participating affordable housing projects enable it to benefit from government project boom especially in 2022. Outstanding competitiveness is presented by premium branding and standardized service. The company stands out with its national presence, 17% of its revenue from government side as well as its branding premium to improve ASP each year. We initiate at a BUY rating with a target price of HK$8.09, suggesting a 18x FY22E P/E.
- As for CCM, Company ranked the second by market share in the industry and the business is highly concentrated in Henan province. We initiate at Hold rating with a target price of HK$1.36 (4.5x FY22PE) because it has high exposure to commercial projects that face downside risk and also its national expansion not yet proven. However, it's currently trading at 4.3x PE which means limited downside.

Figure 21: Valuation table (as of 20220422)

Company	Ticker	CMBI rating	TP (HK$)	Last price (HK$)	Mkt Cap (HK$ mn)	P/E 21A	P/E 22E	P/E 23E	Net profit growth (%) 22E	Net profit growth (%) 23E
Project Management										
Greentown Management	9979 HK	**BUY**	8.1	5.8	11,258	16.3	12.8	10.8	27.2	19.2
Central China Management	9982 HK	**HOLD**	1.4	1.3	4,112	4.3	4.1	4.5	3.3	-7.7
					Average	**13.1**	**10.5**	**9.1**	**20.8**	**12.0**
Property Management										
Country Garden Services	6098 HK	**BUY**	47.6	32.0	107,745	21.3	19.0	14.1	42.5	36.8
CR MixC Lifestyle	1209 HK	**BUY**	56.0	36.4	82,969	41.2	43.7	29.2	48.6	31.4
A-Living	3319 HK	**HOLD**	34.2	12.0	17,012	5.9	5.7	4.6	23.0	24.7
Greentown Services	2869 HK	**HOLD**	7.9	7.8	25,383	26.8	22.3	19.4	16.8	28.0
Ever Sunshine	1995 HK	**HOLD**	12.7	10.2	17,841	23.1	22.1	16.1	41.4	35.5
Poly Services	6049 HK	**HOLD**	53.4	51.6	28,552	28.2	26.6	21.6	22.6	26.7
S-Enjoy	1755 HK	**SELL**	8.5	9.1	7,956	12.2	9.4	7.6	26.7	33.7
Powerlong Commercial	9909 HK	**BUY**	33.2	7.5	4,796	8.7	8.7	6.3	37.2	32.3
Excellence CM	6989 HK	**BUY**	14.9	4.1	4,942	8.1	7.4	5.2	36.9	32.2
Central China New Life	9983 HK	**BUY**	12.9	3.8	4,836	5.8	6.2	4.9	29.2	24.6
Sino-Ocean Services	6677 HK	**BUY**	7.1	3.6	4,203	7.7	8.2	5.7	43.7	36.3
New Hope Services	3658 HK	**BUY**	4.4	2.4	1,913	7.8	8.2	4.8	55.5	NA
Redsun Services	1971 HK	**BUY**	9.4	3.2	1,307	8.2	6.8	4.6	50.2	44.1
Evergrande Services	6666 HK	**BUY**	10.4	2.3	24,865	7.8	5.6	4.2	32.1	31.2
Sunac Services	1516 HK	**BUY**	7.0	4.1	12,591	6.7	7.9	5.9	38.6	30.1
					Average	**23.8**	**23.0**	**16.7**	**38.0**	**31.3**

Source: Company data, Bloomberg, CMBIGM

Project Case:

We listed two classic PJM projects to better illustrate government and capital project management business that provide room for industry to grow:

Governmetn PJM project by Greentown Management

Entrusted entity: Government entity - Wangjiang District Construction and Renovation Headquarters of Hangzhou City

Cooperation details: Hangzhou government had renewal plan for an old village located in the central area of the city and entrusted Greentown Management to build affordable housing to replace the village.

Project details: The project is located in Shangcheng District, with Qianjiang New Town in the east and West Lake Scenic Spot in the west. It has GFA of 144,600 sq m.

Price premium: The project has been delivered for nearly a year. According to the information of several housing brokers, the current ASP of the project is about RMB10,000 per sq m, which is 1x higher than the similar affordable housings, in-line with the commodities housing in the surrounding area

Figure 22: Project price premium

Source: Company data, CMBIGM

Why PJM is involved:

1) Government's lack of professional team and ability to develop independently
2) To save the capital investment through PJM's cost control ability
3) To increase the value of resettlement housing and show political achievements
4) To improve management efficiency as it takes longer for government to do it by itself

Project pics:

Figure 23: Before renewal

Source: Company data, CMBIGM

Figure 24: After renewal

Source: Company data, CMBIGM

Capital PJM project by Greentown Management

Entrusted entity: South Hodo Holding Co., Ltd (South Hodo)

Cooperation details: On April 29, 2017, South Hodo won the bid for the creditor's rights of the trust loan that granted from China Jingu International Trust Co., Ltd. to Wuxi Huixin Real Estate Co., Ltd (Wuxi Huixin)

On July 14 of the same year, the Binhu District People's Court of Wuxi City accepted the bankruptcy application of Wuxi Huixin.

As of January 29, 2018, the Court approved the draft of bankruptcy reorganization plan proposed by South Hodo.

In September 2018, the bankruptcy reorganization procedure of Wuxi Huixin was completed. South Hodo became the biggest shareholder of a part of land that needs to be developed.

In September of the same year, South Hodo entrusted Greentown Management to carry out PJM service for the land and determined to build Chinese style courtyard named "Wuxi Greentown Peach Blossom Garden".

Project details: The project is located on the southwest side of the intersection of Nanheng Street and Xinba Road in Binhu District. The project has Gross building area of 71,743 sq m with a plot ratio of 1.0 and GFA range from 240-520 sq m per unit. Nearly 70% of Wuxi's landscape tourism resources are concentrated within 5 kilometers around the project, including Changguangxi Wetland Park, Jinkui Park, Shangxianhe Wetland Park, Gonghuwan Wetland Park, etc.

Price premium: The ASP of the products is more than RMB38,800 per sq m compared to ASP of RMB25,000 per sq m of products built by origin owner before bankruptcy and reorganization. The price is 1.3-1.5 times higher than that of products around.

Figure 25: Project price premium

Competitive Nature	Project Name	Type and GFA (Sqm)	ASP (RMB/Sqm)	Total Price (RMB Mn)
Competing Projects	Jibao Lan'An	Townhouse: 300-400	25,000	6-10
	Jinmao Yi	Overlay House: 143-266	23,000	3-6
	Landsea Sinic Xihua	Townhouse: 150-188	25,000	3.7-6.8
	CIFI Boyue	Overlay House: 150-270	26,000	3.5-7.5

Source: NBS, CMBIGM

Why PJM is involved:

1) Land owner has no real estate development business and related experience.
2) Land owner is not familiar with dealing with land involving asset disposal.
3) Hard to maximize the value of the land without labeled it by a brand with quality and market recognition.
4) Land owner is not professional in tax planning and cost control in property development process.

Project pics:

Figure 26: After renewal

Source: Company data, CMBIGM

Risks

Less-than expected land supply and weak performance of property market

PJM business is non-recurring in nature, decrease in land supply and performance of property market especially how much new starts are being built would significantly affect the demand of PJM service, and further affect PJM companies' operations and financial results. The headstream of the demand is the total new land supply; less-than-expected land supply is likely to lead weak demand of PJM industry.

According to the most recent NBS data, new starts in China fell 18% YoY in 3M2022 following a 12.2% YoY decrease in the 2M2022. We think this is related to the weaker sentiment reflected in the centralized land supplies. If new starts and the performance of the property market (property sales volume and value down 14%/23% YoY in 1Q2021) continues to worsen, this will have significant negative impact on the PJM sector as business space with the highest revenue contribution shrinks.

The abovementioned risks will be more obvious for PJM companies who invested equity in project under management as they share the risks of land/project value decrement.

Figure 27: NBS data in 3M2022

	Mar-22	YoY	1Q22	YoY	2M2022	YoY	Dec-21	YoY	2021	YoY
Property GFA sold (mn sqm)	153	-17.7%	310	-13.8%	157	-9.6%	213	-15.6%	1,794	1.9%
Property sales (RMB bn)	1,422	-26.1%	2,968	-22.7%	1,546	-19.3%	2,026	-17.8%	18,193	4.8%
New starts (mn sqm)	149	-22.2%	298	-17.5%	150	-12.2%	161	-31.2%	1,989	-11.4%
GFA under construction (mn sqm)	8,063	1.0%	8,063	1.0%	7,845	1.8%	9,754	5.2%	9,754	5.2%
GFA completion (mn sqm)	47	-15.6%	169	-11.5%	122	-9.8%	327	1.9%	1,014	11.2%
Property investment (RMB bn)	1,327	-2.4%	2,777	0.7%	1,450	3.7%	1,029	-13.9%	14,760	4.4%
Domestic loans of developers (RMB bn)	142	-29.7%	553	-23.5%	411	-21.1%	166	-31.6%	2,330	-12.7%

Source: NBS, CMBIGM

Land owners may fail to pay service fee

1) **SMEs are more likely to succumb to problems with capital chain and may result in failure to fulfil their contractual obligation.**

The entrusting party is often weaker and smaller local enterprises, which are most prone to capital chain problems. Once the project encounters problems such as shutdown, delayed delivery etc., the PJM company is difficult to stay immune from the damages caused. Moreover, if the brand is authorized on these unsuccessful projects, brand value will be diminished as it is hard for the public to separate a project management development and a project owned development. Furthermore, if the SMEs are experiencing capital shortage, they may not be able to fulfil their contractual obligation in paying the project management company their fee, causing loss in revenue and increase in bad debt expense recorded on the balance sheet.

2) Lag or decrease in payment from government projects if there's fiscal pressure

Government project mostly adopt public tendering which requires investment capital to be in place beforehand, yet there is possibility that government may delay the service fee payment to PJM company or even cut the price of PJM service if they're suffering from fiscal pressure caused by worsening macro environment.

Regional players are highly dependent on the market's performance of certain region.

Many PJM companies' businesses are concentrated in a certain region based on resource or relationship with the local government. Take Central China Management as an example, the company have majority of its business in Henan province, Since July-2021, Henan province has been affected by severe flooding, caused by a period of prolonged heavy rainfall. Record-breaking maximum rainfall of 201.9 millimeters in an hour was observed in Zhengzhou, the provincial capital. Moreover, Henan province has experienced a rebound in COVID-19 cases from the end of July to August, causing cities to re-enact lockdowns. The above are examples of extreme external events that can adversely affect project timeline and cause delays in construction and delivery. Due to the regional nature of The Company, projects are concentrated in Henan province, under external adverse events, damages cannot be offset by projects elsewhere. In 2020, an aggregate of 14 projects under the company's management experienced delays in their respective construction or delivery due to the COVID-19 pandemic, which led to a delay in revenue recognized for service fees of approximately RMB18.5mn.

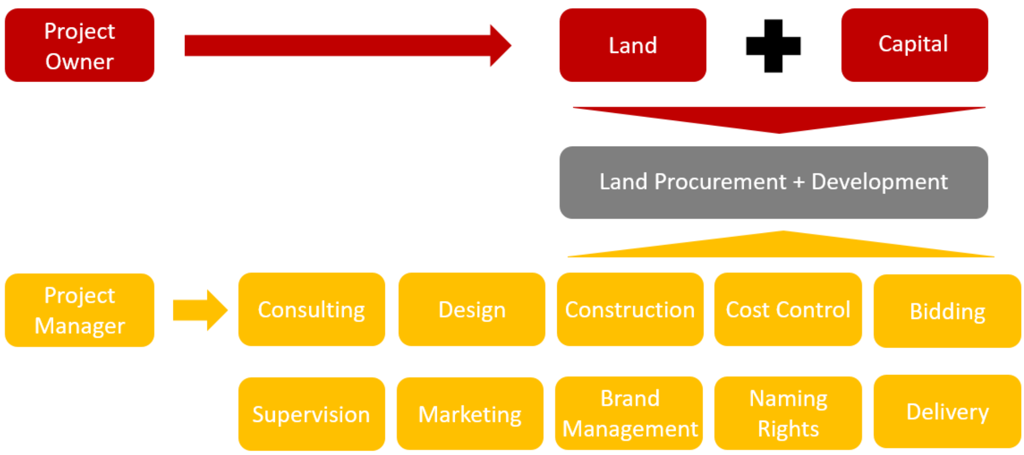
Industry Overview

PJM industry in China

The PJM sector in China dated back to the 1990's starting with government mandated projects. In the process of building public facilities and affordable housing back then, government entity usually acts as funds provider, builder and supervisor simultaneously, which was easily lead to illegal use of funds and PJM companies were introduced to avoid corruption. As the competition in property development market intensifies, PJM companies started to serve non-government entities like SMDs and FIs who have needs on land development/PJM service

PJM companies are acting as authorized agents to the land owners like SMDs, government and government-related entities, SOEs and FIs to provide services that covers the entire property development process, that can be classified into three sections: 1) **Consulting**: conduct market research, budgeting and investment feasibility analysis to help land investors make better purchasing decisions. 2) **Coordination and supervision**: perform all functions on behalf of the land owners (or project owners) to upstream and downstream including communicate/report to related regulators (such as: City Planning Bureau, Housing and Urban-rural Development Bureau, Quality Inspection Bureau, Taxation Bureau, Industry and Commerce Administrative Bureau, etc.), coordinate with all participants (such us design companies, construction companies, etc.) of the following development procedures until the project is completed, sold and delivered meanwhile provide expertise on controlling projects' progress, cost and quality. 3) **Brand licensing**: projects can be marketed under the brand name of the PJM company.

Figure 28: China PJM business



Source: CAAM, CMBIGM

There are three segments within industry based on customer type, including: 1) **Commercial project management**: which is the mainstream of the industry, refer to the projects initiated by SMDs, including private enterprises and SOEs (mostly local SOEs), who own/will invest in land slots but lack of resources and brand competition power to develop independently. These projects cover residential properties, office buildings and commercial complexes depending on the clients' needs. 2) **Government project management**: which is the origin of the PJM industry, deal with projects mandated by the government/government-related entities who need development service for affordable housing, museums, gymnasiums, city squares, schools or hospitals, etc. Their ultimate goal is not to purse profits but to focus more on benefiting the society. 3) **Capital project management**: Projects mandated by FIs such as non-performing asset management companies that seek profits from the land in hands but with limited development experience.

As commercial & capital projects management cover mainly residential projects which require sales service thus the PJM fee is generally charged at 4-6% of the total property sales, at 2-4% if PJM company has equity in the underlining project. While management fee of government projects which is delivered to the government upon completion, is charged at RMB 70-110 per sq m, accounted for c.0.4-2% of total investment amount of project.

Figure 29: China PJM business types

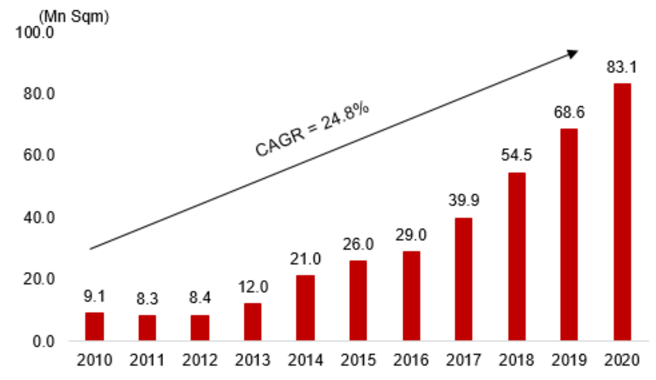
Business type	Client	Project	Mgmt. Service fee
Commercial project management	SMDs including private enterprises and local SOEs	Mostly residential property, a few office building and commercial complex	PJM service only: = (3%~6%) * Estimated property sales PJM company owns equity in underling project: = (2%~4%) * Estimated property sales + Equity investment income
Capital project management (revenue included in commerical PJM segment)	FIs like AMCs	Residential properties	with brand licening service: = (3%~6%) * Estimated property sales without brand licening service: = (1.5%~6%) * Estimated property sales
Government project management	Government entities	Settlement/affordable/renewal housing, museums, gymnasiums, schools, hospitals	= (0.4%~2%) * total project investment

Source: Company data, CMBIGM

Market size

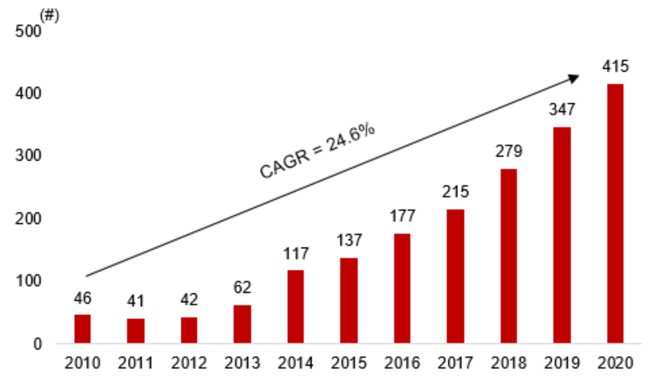
According to CIA, The GFA of newly contracted projects grew from 9.1mn sq m to 83.1mn sq m (Figure 31) from 2010 to 2020, the number of new projects increased from 46 to 415 (Figure 31), with a CAGR of 25.1% and 24.6%, respectively. Total contracted GFA and the number of projects under management delivered a CAGR of more than 24% within the same timeframe.

Figure 30: The GFA of newly contracted projects of PJM companies in China, 2010-2020



Source: China Index Academy, CMBIGM

Figure 31: The number of newly contracted projects of PJM companies in China, 2010-2020

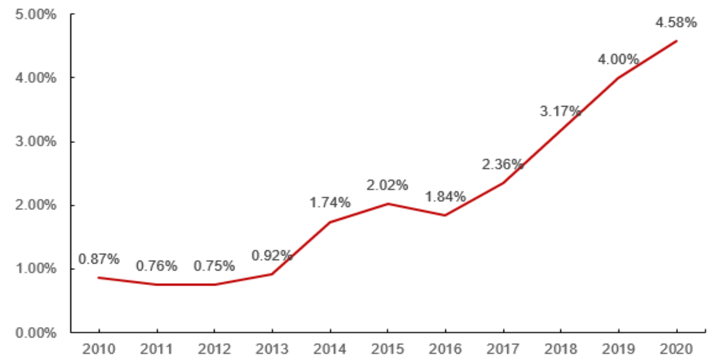


Source: China Index Academy, CMBIGM

The industry penetration rate of market consensus, which is calculated using GFA of newly contracted projects divided by total GFA of commodity properties sold, has ramped up from 0.87% in 2010 to 4.6% in 2020 (Figure 33) despite the weak growth of commodity properties sold in recent years (Figure 35). Based on statistic of urban housing demand, CIA estimated the penetration rate to reach 12.5% by the end of 2025E (Figure 34), suggesting the newly contracted GFA of PJM industry to reach 220mn sq. m in 2025E (Figure 36), representing a CAGR of 21.3% from 2021E. **However, it is unlikely to happen based on our estimation that illustrated in "How we different from market" section.**

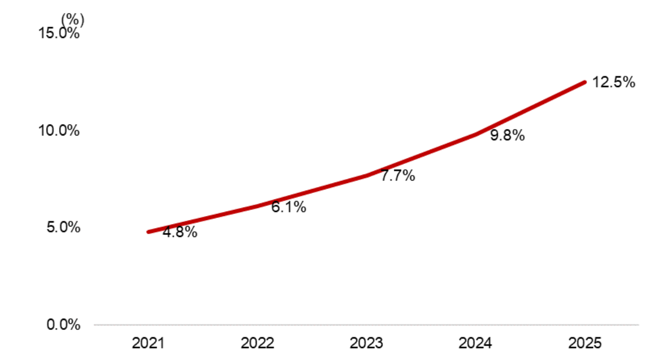
If we look at matured markets like the US and UK, albeit having different names (US: construction project management; UK: contactor), the penetration rate, calculated using PJM industry's market size divided by total construction spending, falls within the 20-30% range (Figure 39 and 40). One key difference is their business scope covers more than just residential, commercial and public buildings, which take plenty of shares in the PJM industry in China, but includes highways, bridges and even coalmines. Their history is much longer dating back to the early fifties emerged from large defence projects' outsourcing after the WW2. For China to mirror matured markets, PJM firms need to broaden service scope in undertaking a wider variety of projects including the above said facilities. Moreover, it will take time before companies can saturate the vaster market of the construction industry.

Figure 32: The overall PJM industry penetration rate in China, 2010-2020



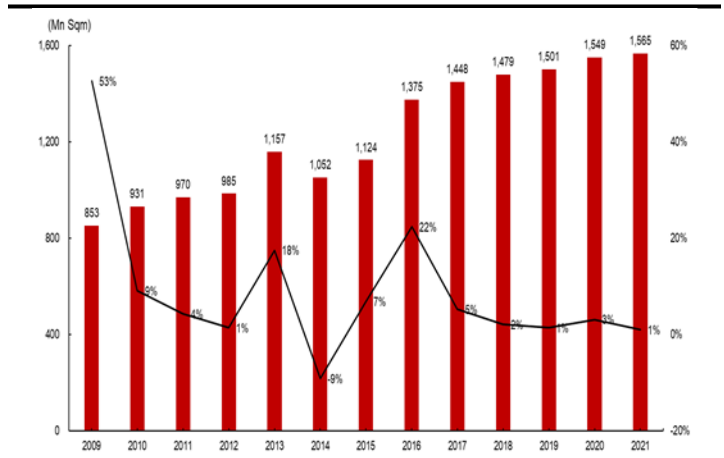
Source: China Index Academy, NBS, CMBIGM

Figure 33: CIA forecasted overall PJM industry penetration rate in China, 2021-2025



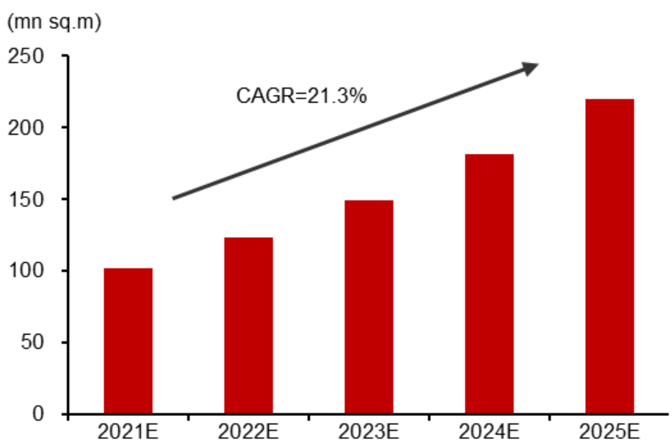
Source: China Index Academy, CMBIGM

Figure 34: GFA of commodity properties sold in China, 2009-2021



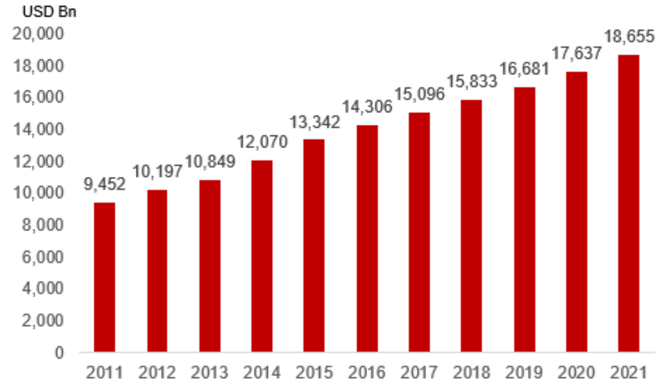
Source: NBS, CMBIGM

Figure 35: Forecast of newly contracted GFA in China PJM market, 2021-2025



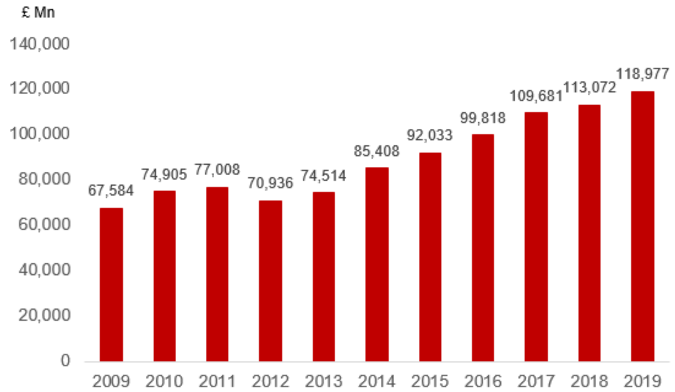
Source: China Index Academy, CMBIGM

Figure 36: The overall market size of the PJM industry in US, 2011-2021



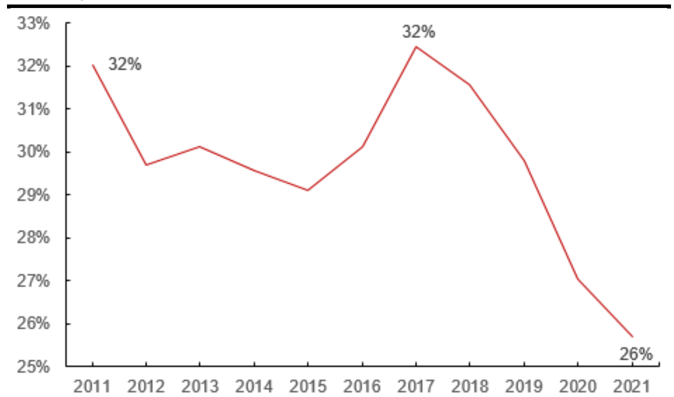
Source: US Census Bureau, CMBIGM

Figure 37: The overall market size of the PJM industry in UK, 2009-2019



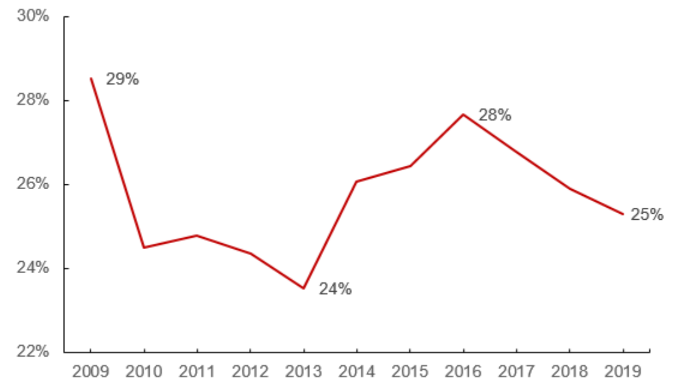
Source: UK Office for National Statistics, CMBIGM

Figure 38: The overall PJM industry penetration rate in US, 2011-2021



Source: China Index Academy, NBS, CMBIGM

Figure 39: The overall PJM industry penetration rate in UK, 2009-2019



Source: China Index Academy, CMBIGM

Market outlook

1) The demand pool of commercial PJM segment may shrink at ~5 CAGR (21-25)

The market generally believes PJM service will embrace more demand from SMDs who trying to survive in property market downturn thus labelled the industry with "Anti-cycle".

Nearly the opposite, PJM industry is not so anti-cycle in our view and we expect the maximal of market size (demand pool), which we define as "service fee from all new land acquisitions by non-Top 100 developers", to shrink at a -5% CAGR from RMB173bn in 2021 to RMB140bn in 2025.

Total new land supply to decline in 2021-2030

According to National Land Planning (2016-2030) of State Council, cumulative land supply in 2021-2030 will be 1.4x of that in 2016-2020, suggesting the average land supply per year to decrease -29% in 2021-2030 from in 2016-2020, equals to a -5% YoY decline in new land supply from 2022E to 2030E if we use straight-line method.

Figure 40: Cumulative land supply change

	2016-2020	2021-2030	Growth
New land supply (mn sq.m)	4,971	7,031	41%
Avg. new land supply per year	994	703	-29%

Source: State Council, CMBIGM

Figure 41: Cumulative land supply change

RMB bn	GFA of land sold in 300 cities (mn sq. m)	YoY growth
2015	774	-24%
2016	750	-3%
2017	930	24%
2018	1,024	10%
2019	1,095	7%
2020	1,172	7%
2021	877	-25%
2022E	833	-5%
2023E	791	-5%
2024E	751	-5%
2025E	714	-5%
2026E	678	-5%
2027E	644	-5%
2028E	611	-5%
2029E	581	-5%
2030E	551	-5%

Source: State Council, CMBIGM

The maximal size of market is shrinking (2021-25 CAGR of -5%)

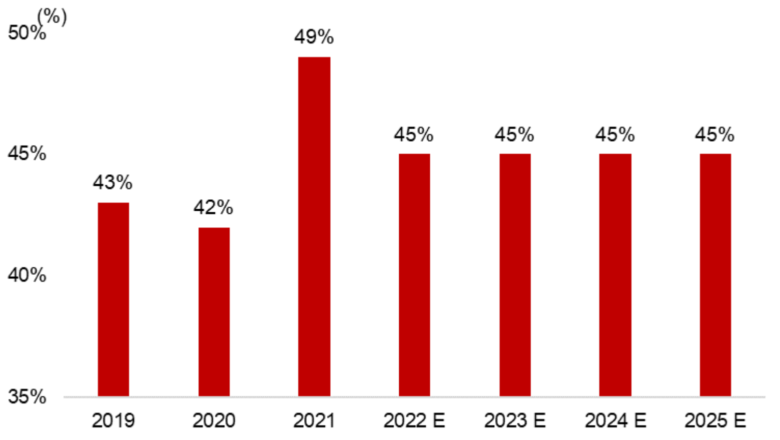
We see Non-top 100 developers (including local SOEs) as the target customer of PJM service as top-100 players have no such demand in our view. From 2019-2021, non-top 100 developers accounted for only 42-49% of total land supply in 300 cities in terms of transaction value. Their market share is likely to decline at 45% level due to supply side reform.

Figure 42: SMDs market share by land acquisition

RMB bn	GFA of land sold in 300 cities (mn sq. m)	yoy growth	Land ASP (RMB/sq.m)	300 cities' Land transaction value	Land acquisition: Top 100 developers	Land acquisition: Small developers	Market share of SMDs
2019	1,095	7%	4,363	4,778	2,736	2,042	**43%**
2020	1,172	7%	4,574	5,360	3,089	2,271	**42%**
2021	877	-25%	5,522	4,844	2,483	2,361	**49%**
2022E	833	-5%	5,632	4,692	2,599	2,093	**45%**
2023E	791	-5%	5,745	4,545	2,517	2,028	**45%**
2024E	751	-5%	5,860	4,403	2,439	1,965	**45%**
2025E	714	-5%	5,977	4,266	2,363	1,903	**45%**

Source: State Council, CMBIGM

Figure 43: SMDs land acquisition as % of total



Source: State Council, CMBIGM

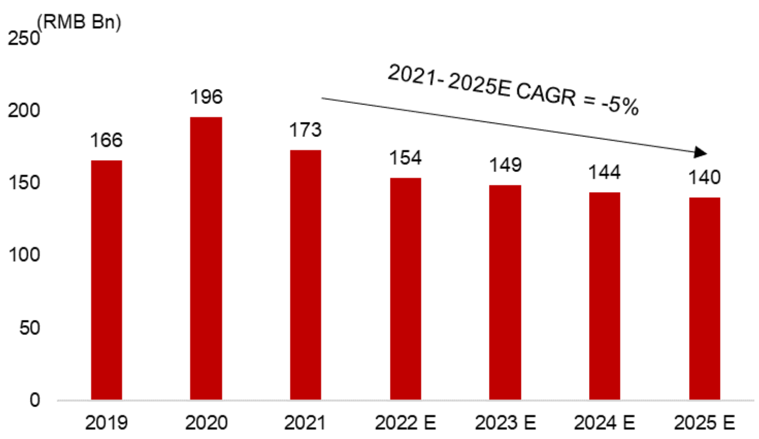
We assume service fee rate to be stable at 4% from 2020 to 2025E and the ASP of property to increase 2% YoY from 2022-25E. The commercial PJM market size is contracting from RMB173bn in 2021 to RMB140bn 2025 with a CAGR of -5%.

Figure 44: Commercial PJM market size shrinking

RMB bn	GFA of land sold in 300 cities (mn sq. m)	Avg. property selling price (RMB/sq.m)	Market share of SMDs	Property sales - PJM targeting customer	Service fee rate	Market size: estimated service fee
2019	1,095	9,310	43%	4,358	3.8%	**166**
2020	1,172	9,860	42%	4,895	4.0%	**196**
2021	877	10,139	49%	4,335	4.0%	**173**
2022E	833	10,342	45%	3,844	4.0%	**154**
2023E	791	10,549	45%	3,724	4.0%	**149**
2024E	751	10,760	45%	3,607	4.0%	**144**
2025E	714	10,975	45%	3,494	4.0%	**140**
					2021-2025 CAGR:	**-5%**

Source: State Council, CMBIGM

Figure 45: Demand pool: Estimated service fee



Source: State Council, CMBIGM

2) Estimated a 6% industry growth vs consensus of c.20% (20-25 CAGR)

We estimated a 6% industry growth vs consensus of c.20% as we believe the market share of SMDs is likely to decrease at ~ 45 level, the penetration rate of commercial PJM is already high (our estimation 17% vs. market consensus 4.6%) and overall property industry already facing declining net margin to ~5% thus less and less developers can afford 3.0-4% of sales for service fees.

Penetration rate already high (our estimation 17% vs. market consensus 4.6%)

Our penetration rate was calculated as the "Total service fee of the industry" divided by "Service fee from land acquired by non-Top 100 developers". In 2020, industry has 83.9mn sq m of newly contracted GFA with estimated service fee of RMB33bn, where new land acquired by SMDs is supposed to bring an estimated service fee of RMB196bn, resulted in a penetration rate of 17%. This is much higher than 4.58% calculated by China Index Academy (CIA) by using total urban housing demand as the dominator.

Figure 46: PJM industry penetration rate

RMB bn	Market size: estimated service fee	Newly contracted GFA of PJM industry (mn sqm)	Estimated service fee of PJM industry	Penetration rate
2019	166	70.89	25.1	15%
2020	196	83.9	33.1	17%

Source: State Council, CMBIGM

Expect single-digit industry growth (6% vs. consensus of 21%)

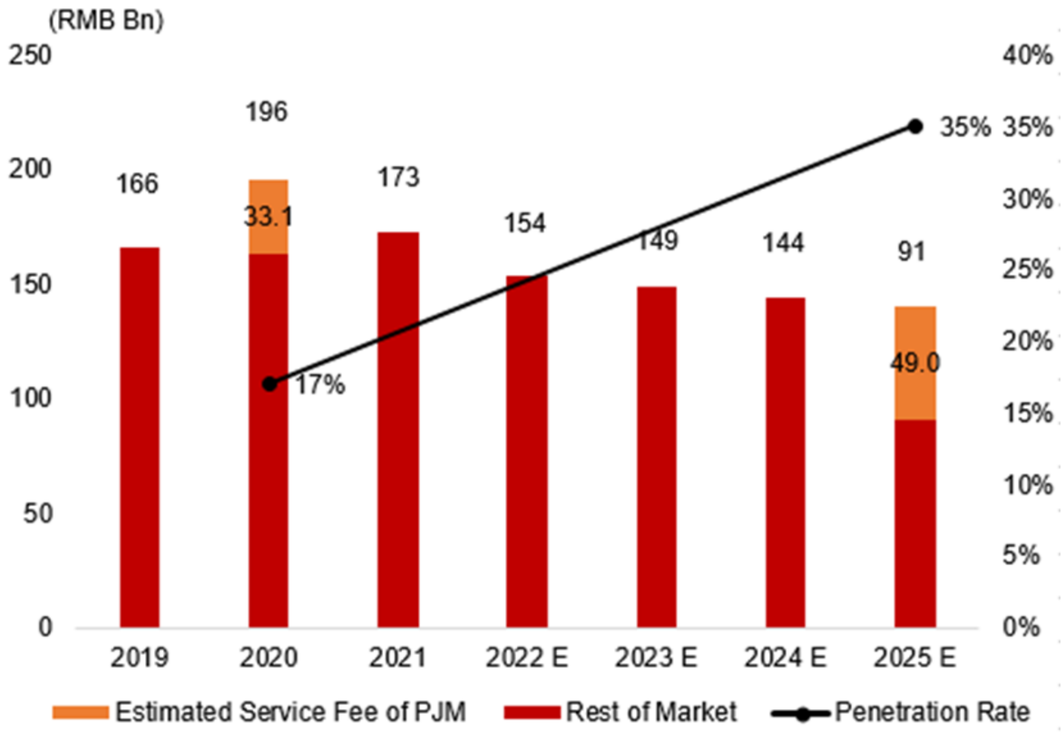
Based on our growth forecasts on two major players (Greentown Mgmt. and CCM), and an assumption of 2% YoY market share increase for both of them in 2021-25E, industry penetration is likely to reach 35% in 2025E, brings newly contracted GFA of the industry to 111mn sq. m and estimated service fee to RMB49bn, representing 2020-25 CAGR of 5.8% and 8.1%, respectively.

Figure 47: SMDs market share by land acquisition

RMB bn	Market size: estimated service fee	Newly contracted GFA of PJM industry (mn sqm)	Estimated service fee of PJM industry	Penetration rate
2019	166	70.89	25.1	15%
2020	196	83.9	33.1	17%
2021	173	n.a.	n.a.	n.a.
2022E	154	n.a.	n.a.	n.a.
2023E	149	n.a.	n.a.	n.a.
2024E	144	n.a.	n.a.	n.a.
2025E	140	111.4	48.9	35%
	21-25 CAGR: -5%	20-25 CAGR: 5.8%	20-25 CAGR：8.1%	

Source: State Council, CMBIGM

Figure 48: SMDs market size, estimated service fee and penetration rate



Source: State Council, CMBIGM

3) Government project is to support industry growth.

MOHURD announced to build 6.5mn units of affordable rental housing during 2021-2025, 942k units was completed in 2021.

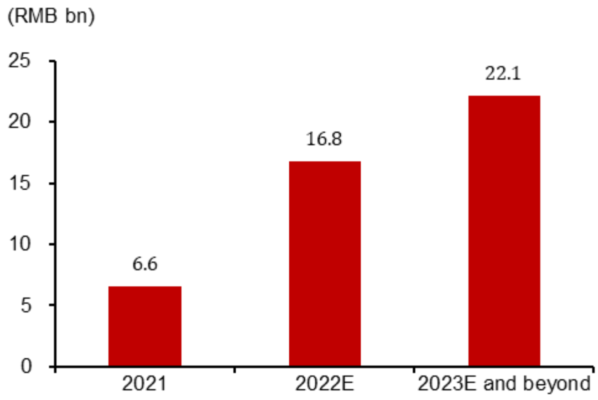
The plan for 2022E is around 2400k units according to government and we assume the remaining units will be completed c.1000k per year until 2025E, GFA of each unit is required to reach 70 sq. m, with a RMB100 per sq. m PJM service fee, the affordable rental housing supply is likely to create estimated service fee of RMB46bn from 2021-2025E. In 2022, it may potentially bring RMB17bn service fee to the overall PJM industry, suggesting **2022 a big year for PJM companies to develop a second growth curve**, especially those who already have market presence in this area like Greentown Mgmt. and Gemdale. Greentown Mgmt. is for now the largest PJM service provider in this field with 20% of its revenue coming from government projects by the end of 1H21.

Figure 49: Estimated service fee for affordable rental housing

(RMB bn)	No. of units ('000)	GFA (k sqm)	Estimated service fee
2021	942	65940	6.6
2022E	2400	168000	16.8
2023E and beyond	3158	221060	22.1

Source: MOHURD, CMBIGM

Figure 50: Estimated service fee for affordable rental housing



Source: MOHURD, CMBIGM

4) Capital PJM is a new growth point but may need longer time to absorb the demand

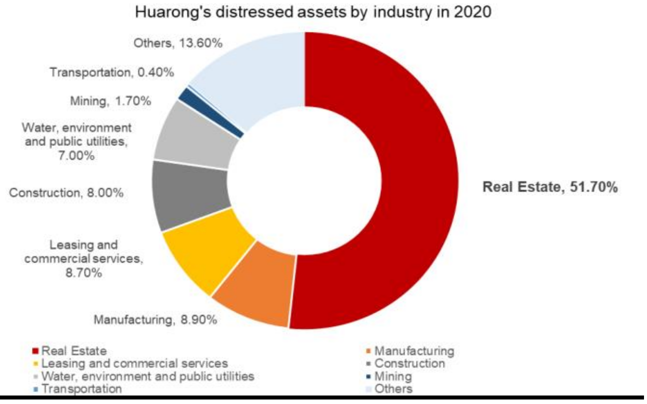
Revenue from capital PJM business is currently included in commercial PJM segment. With the increase of non-performing assets in the real estate industry, FIs are encouraged by government to help accelerate the disposal of non-performing property related-assets, which is likely to provide business opportunities for PJM companies as some of players are trying to explore a property cooperation model with AMCs like China Cinda and China Orient. As we can see from the non-performing assets by industry that AMCs dealt with in 2020, 46%-52% of total were distributed in real estate industry. We roughly assume return on such asset is around 10%, based on acquisition amount disclosed by China Cinda and China Huarong, estimated service fee could be RMB12bn for PJM company to saturate. Suppose China Huarong accounted ~ 40% of the total non-performing assets disposal market which suggest RMB21bn is available for PJM players to generate.

Figure 51: Estimated service fee from distressed assets

RMB bn	Acquisition amount	Return	Sales amount	service fee rate	Estimated service fee
China Cinda	88.67	10%	98	4%	3.9
China Huarong	188.35	10%	207	4%	8.3
Subtotal					**12.2**
Total					**20.7**

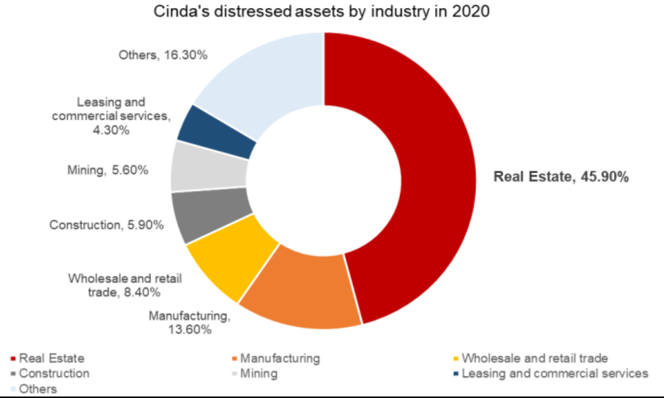
Source: Company data, CMBIGM

Figure 52: China Huarong's distressed assets by industry in 2020



Source: China Index Academy, NBS, CMBIGM

Figure 53: China Cinda's distressed assets by industry in 2020



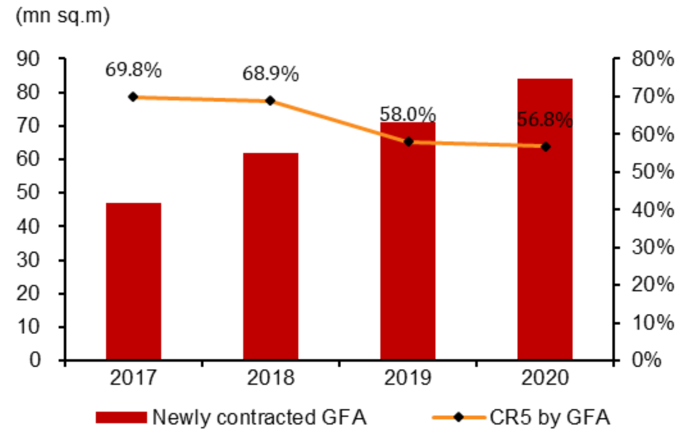
Source: China Index Academy, CMBIGM

Competitive landscape

1) Industry is highly concentrated

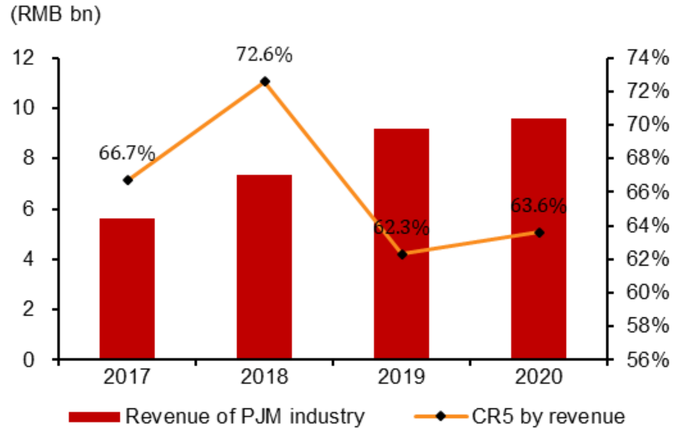
As of the end of 2020, there were 28 major PJM companies in China. Among them, 8 are mainly engaged in government PJM and 20 are mainly engaged in commercial project management. **The industry is highly concentrated** where the top 5 companies captured a market share of 56.8% and 63.6% in terms of newly contracted GFA and revenue in 2020.

Figure 54: PJM industry CR5 by newly contracted GFA



Source: CREIS, Company data, CMBIGM

Figure 55: PJM industry CR5 by revenue



Source: CREIS, Company data, CMBIGM

Figure 56: Rankings in terms of newly contracted GFA (2020)

Ranking	Companies	Market Share
1	Greentown Management	23.1%
2	Central China Management	10.6%

Source: Public disclosures, CMBIGM

Figure 57: Property sector P/E comps (as of 20220422)

Company	Ticker	Last price (LC)	Mkt Cap (LC mn)	TP (LC)	P/E 20A	P/E 21A	P/E 22E	PB 20A	Dividend Yield 21A	Dividend Yield 22E
Vanke - H	2202 HK	18.50	263,504	33.92	4.7	4.2	4.0	0.7	7%	6%
COLI	688 HK	24.65	269,790	30.49	6.1	5.9	5.2	0.6	5%	5%
Country Garden	2007 HK	5.31	122,918	13.36	3.3	2.5	2.2	0.5	10%	8%
CR Land	1109 HK	35.15	250,653	44.79	8.4	7.9	7.2	1.1	5%	5%
Longfor	960 HK	40.00	243,029	52.59	11.7	8.0	7.7	1.9	5%	5%
Shimao	813 HK	4.42	16,786	44.94	1.2	1.0	0.9	0.1	26%	29%
Agile	3383 HK	3.72	14,571	13.89	1.5	1.5	1.4	0.2	20%	18%
KWG	1813 HK	2.75	8,755	17.87	1.3	1.1	0.9	0.1	29%	28%
Times China	1233 HK	2.76	5,801	16.20	1.1	0.8	0.7	0.2	31%	23%
China SCE	1966 HK	1.40	5,911	5.60	1.5	1.3	1.1	0.2	22%	22%
Redsun	1996 HK	2.58	9,048	3.52	5.2	4.1	3.5	0.5	6%	8%
Vanke - A	000002 CH	19.30	216,587	31.36	4.9	4.4	4.2	1.0	7%	6%
Radiance	9993 HK	4.48	18,123	5.55	5.0	4.4	3.6	0.6	8%	10%
Dafa	6111 HK	3.69	3,039	8.32	9.0	4.9	4.2	0.7	NA	NA
Dexin	2019 HK	2.77	7,483	3.56	7.5	6.6	5.8	1.0	7%	8%
Average					**4.8**	**3.9**	**3.5**	**0.6**	**13.3%**	**12.9%**

Source: BBG, CMBIGM,

2) Some developers have PJM arms but not many intend to go public

Expect for Greentown Mgmt. and CCM who have already been separated from Parent Co. and listed in HKex. From 2016 to 2018， Agile, Gemdale Group and Modern Land have established Agile Housing Management, Gemdale Management and Modernm Management to independently operate PJM business. Recently, Country Garden and CIFI has announced their intention to further involvement of PJM business.

- Agile Housing Management has provided PJM services for nearly 50 projects across the country. As of June 30, 2021, the company has managed projects in key urban agglomerations such as the GBA, the Yangtze River Delta, and Chengdu-Chongqing, value of sellable projects reaches RMB130bn. The company has not yet announced to go public
- Gemdale Management's PJM business has been deployed in 30 cities across the country, with nearly 60 projects under management (as of Oct 2020). The projects cover public buildings, residential property, offices, industrial parks, etc. The market believes that Gemdale Management is very likely to go public. The company has no relevant timetable for the time being.
- Modern Management focuses on green technology buildings and expands its business with the iconic brand "MOMA". As of Oct 2021, it has more than 30 projects under management in 17 cities, covering residential, commercial, apartment, hotel, etc. It is worth noting that its parent Co., Modern Land, has several successful financing platforms that provide finance support to clients of Modern Management. The company has not publicly stated that it will go public.
- Country Garden announced at FY21 results briefing that company believe social security housing will provide opportunity for company to develop government PJM business and the company is intended to step in.
- CIFI stated that the company signed 5 new projects with total GFA of 1.2 mn sq.m in Mar-22 and is aiming to have 40-50 contracted projects in FY22. Company is mainly involved in commercial PJM business and will future step in government PJM and capital PJM.

Several players indicated that they have no interests to spin off PJM arm but plan to gradually transform from a traditional development-dominated company into a PJM business-dominated, asset-light company who do not need to pay for land acquisition and construction process.

- Landsea Group has been focusing on green technology real estate. In 2014, the company proposed the strategic plan to transform from an asset-heavy "investment + development" model to an asset-light model of "development with less investment". The company's PJM service is not completely asset-light as it generally invests 20-30% of equity in projects.

Some leading developers are also involved in the PJM business, and have core competitiveness to make a difference in the PJM market. They have not expressed their willingness to spin off or list the PJM arm, but they are potentially strong competitors in the market.

- CR Land provided PJM services for the "Shenzhen Bay Sports Center", the World University Games venue in 2008, and later provided PJM services for important stadiums in Shanghai, Xi'an, Hangzhou, as well as shantytown redevelopment projects in Shenzhen. As of 2020, CR land has provided PJM services for more than 100 projects, covering parks, schools, municipal roads, hospitals, etc. The company has rich experience and is a strong competitor in the government PJM market.
- Longfor, who has been focusing on high-quality products and has a very strong brand power, provided PJM services for school projects in Anhui, Shandong etc. Many believes that if Longfor decided to expanding in PJM market, it may become powerful competitor for incumbents.

Figure 58: Players in PJM industry

Parent	PJM Company	Comments
Greentown	Greentown Management	Its scale has an abosolute advantage in the industry
Central China	Central China Management	Operates in 20 cities with high premium
Agile	Agile PM	50 projects with sellable resource of RMB130bn
Gemdale	Gemdale Management	Operates in 30 cities with 80% residential and 20% government or commercial
Modern Land	Modern Green	Operates in 17 cities with financing platforms
Landsea	Landsea Construction	Generally invests 20-30% of equity in projects
CR Land	-	Mainly focuses on government PJM market
Longfor	-	Did PJM for schools, will be a powerful competito

Source: Ehouse, CMBIGM

Industry Highlights: Sweet spots or sugarcoats?

Asset-light: true or otherwise?

We expect players with decent organic growth to enjoy valuation of "asset-light" companies, others may need more efforts. PJM companies have been enjoying reputation of "asset-light" as they do not need to provide funds for land acquisition and property development process (mainly construction costs). However, we believe not all players completely deserve to be valued as asset-light company as some of them rely on resources from parent Co. or affiliated company to develop business or adding value.

Figure 59: PJM companies' independence

Company	Comments
Greentown Management	1) Business expansion mainly by 3-rd party 2) Differentiated vendor/supplier 3) 20-30% adopts Greentown Services as PM
Central China Management	1) 100% of projects entrusted by 3-rd party 2) Education segment of parent brings value
Gemdale Management	1) Company-assisted model funds land owners through financial platforms

Source: Company data, CMBIGM

1) Greentown Mgmt. fits the best to the asset-light model

If we take a look at the **Greentown Mgmt. who for the moment, fits the best into the asset-light model** as it hardly relies on the assets invested by related companies in our view.

1) The company expands its business mostly through third parties other than Parent Co. or related companies., currently no project under management was invested by affiliated companies. But the company are cooperated with business partners who share part of the total service fee of some projects.

2) Since Greentown Mgmt. manage projects at a ASP range of RMB15,000-18,000 per sq m, Greentown China and Greentown Service are covering projects ASP range from RMB25,000-28,000 per sq. m, the company has to use differentiated vendors/suppliers (design companies, builders, community service providers etc.) from that of Parent Co. or related company, company usually provide a vender library for clients to choose. Company said it only has 20-30% of projects adopted community service from Greentown Service, which is one of the vendor library, suggesting in most projects, when company sell the products at a good premium, value added by Parent Co. or related companies plays a small part.

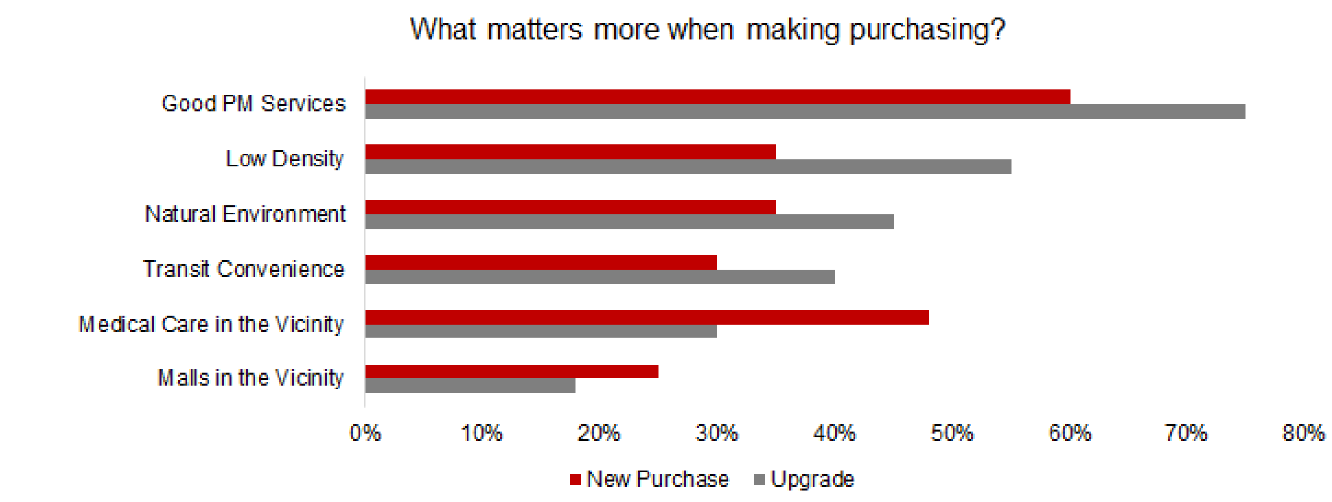
3) Company said it has and will have more projects that are not labelled by "Greentown" which proves the market value of its independent management service.

2) CCM is growing on the back of the eco-system built by Parent Co.

If we turn our eyes on CCM, who's also capable of develop business through third parties and has almost 100% of its projects entrusted by third party companies. While **CCM has its related company – Central China New Life provided community service for most of its projects**, indicating Central China New Life, who have good service quality and some value-added service free of charge (community gyms, after-school child care center, etc.) plays a big role when project sells at a good price premium (Figure 63, 64). That is to say, the company may look asset-light on balance sheet but the business still depends on the assets invested by its affiliated companies to a certain degree. We found that not only Central China New Life, but also the education segment of its Parent Co. is providing additional value to CCM's project. It seems CCM is growing on the back of the eco-system built by its Parent Co., which cannot be seen as a complete disadvantage, but compare to the Greentown Mgmt, CCM do need more efforts to develop independently.

Apart from that, **CCM's fee charging structure is including not only basic management service fee but also premium management fee** which the charged on certain percentage of sales exceeding pre-agreed sales. Many questioned that it seems the company is providing an implicit sales guarantee to land owners, but the company explained that premium management fee can be seen as a bonus and it is not taking into consideration when negotiating basic management fee price with land owners. That also can be testified by reported numbers, premium management fee accounted for 15.5%, 14.4 and 5.5% of total revenue in 2018,2019 and 2020, respectively. High percentage in 2018 and 2019 mainly due to good performance of the whole property market.

Figure 60: what matters when purchasing house



Source: CIA, CMBIGM

Figure 61: Central China New Life ranked No. 1 by PM service in Henan

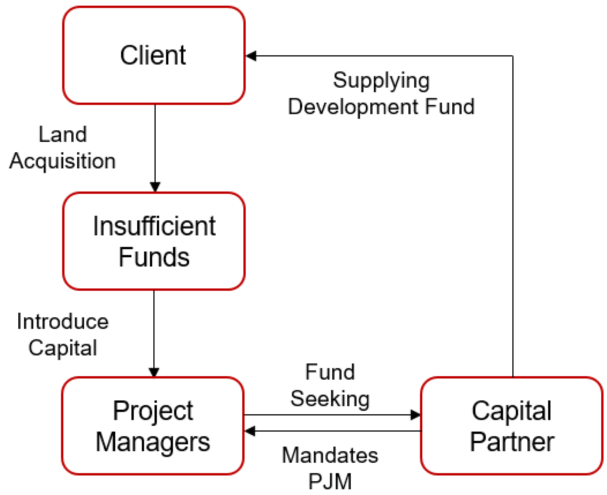
Top 30 PM in Henan (2021)	
Rank	Company
1	CC New Life
2	Xinyuan PM
3	Yongwei PM
4	Kangqiao Service
5	Zhenghong PM
6	LvDu PM
7	Greentown Services
8	Yaxin PM
9	Gemdale PM
10	New Century PM

Source: CIA, CMBIGM

3) Gemdale Management: indirectly provide funds to land oweners

Another "half asset-light" model was adopted by Gemdale Management, according to CIA, part of Gemdale Management's business is involving in providing funds for land owners through the financial platforms of its Parent Co. such as Wensheng Investment, Wenying Wealth and Jinchengxin Micro-Lending Platform. Many think this is tying the risks of the projects with its financial platform and as if transferring heavy assets to related companies. Gemdale Management may not be valued as a complete asset-light company in our view.

Figure 62: Business model of Gemdale Management



Source: CIA, CMBIGM

Is healthy cash flow to be affected?

We believe the cash flow generating ability of the industry will be slightly affected by 1) the increasing liquidity issues of SMDs. 2) The possible fiscal pressure faced by local government if macro economy is worse-than-expected.

Cash flow generating helped by diversified fee collection mechanisms

PJM industry is seeing good cash flow generating ability given 1) revenue mostly generated from service fee rather than sharing land/project value incremental, 2) the diversified fee collection mechanism may support and stabilize the cash flow generation.

Fee collection timetable for each project varies and is negotiable if anything matters change. currently there are three main types in the market, if we take a project with estimated sales of RMB1bn and management fee rate of 4%, the management fee collectable from project owner to PJM company should be RMB40mn in total. We simply assume the project need 36 months from the land acquisition to project delivery and the fee collection mechanism should be as follows:

Mechanism 1: Charge c. RMB1.1mn per month from land owner until the project delivered.

Mechanism 2: Charge total amount according to project progress such as when planning completed, permit received from regulator, building foundation completed, building structure completed, landscape construction completed etc. Assume there's 10 major steps in progress, land owner pays RMB4mn at each.

Mechanism 3: Charge 50% (2% of sales, RMB 20mn) according to project progress about RMB2mn per major steps completed in progress. Charge another 50% based on sell-through rate, for instance RMB2mn for every 10% of project sold.

In actual business operations, Mechanism 2 and 3 are generally adopted by commercial PJM and capital PJM business as they need sales service in the whole management service package. While the government PJM, usually with no sales service requirement, no brand licensing, is keen to use Mechanism 1 and 2 with the total service fee calculated based on total investment amount of the project instead of total sales. Our recommended company Greentown Mgt. and CCM use all 3 mechanisms depends on business type or under the demand of land owner.

1) May be affected by liquidity issue of SMDs and fiscal pressure of government.

While the existing fee collection mechanisms still pose credit risks to PJM companies, such as: 1) Owners of commercial projects are mostly SMDs who may subject to capital shortage. Once they have liquidity issues that may cause delay or stop of project schedule, hurt the brand value and fail to pay management fee. 2) Government project mostly adopt public tendering which requires investment capital to be in place beforehand, yet there is possibility that government suffers from fiscal pressure in economy downturn and delays the fee payment to PJM company.

2) Certain measures to control the above mentioned risks

Companies are actively avoid/control the above mentioned risks by several measures as Greentown Mgmt. stated that:1) due diligence and credit evaluation on land owner is a must before signing agreement. 2) if capital shortage occurs in the project progress, the company is willing to share resources of financial platforms but not in the way of expanding assets of its own. CCM's effort is to establish jointly-managed bank account with project owners for most of its projects to monitor capital movements.

25 Apr 2022

Greentown Management Group (9979 HK)

Deserving a "Merit student" reward

We initiate Greentown Management with a BUY rating and a target price of HK$8.09, based on 18x our FY22E P/E, as the company takes the leading position in the industry, shows competitiveness on many aspects and is likely to benefit from multiple factors in the future. Greentown Mgmt. deserves a "Merit Student" reward in the industry in our view.

- **Industry leader with future growth benefits from multiple positive factors.** As the leader, Greentown Mgmt. is likely to expand faster than the industry given its rich experience in commercial PJM and long history in participating affable housing projects. The company's current presence in capital PJM will support it to benefit from policy of accelerating the non-performing asset disposal. Together with a big M&A case disclosed in Jan 2022, the future growth of Greentown Mgmt. is worth looking forward to.
- **Role model of "asset-light" model with competition power**. The company has no capital invested in land acquisition and construction, hardly relying on resources from parent co. and is not going to invest in equity of the projects under management. Its competition advantage was powered by brand and standardized service. The brand "Greentown" stands for high price premium and high sell-through rate. The company is the first one to establish system to standardize its services for better fulfilling complex needs from diversified clients.
- **Outstanding financials with improved stock liquidity.** The company presented growing cost control capability and high profitability. The company's financials have showed its high cash flow generating ability and the fact of close-to-zero borrowing. With a 68% dividend payout ratio recorded in FY21, the company is likely to provide decent return to investors. CEO's multiple share repurchase and the stock's inclusion to HIS and Stock Connect has improved the stock's liquidity and lifted the investors' confidence.
- **Valuation/Key risks.** We initiate at a BUY rating with a target price of HK$8.09, suggesting an 18x FY22E P/E. **Risks:** 1) Weak performance of China property market. 2) Government's delay or cut on service fee. 3) Slower progress in expanding in capital projects. 4) Brand value damage.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	1,813	2,243	2,767	3,242	3,722
YoY growth (%)	-0.1	0.2	0.2	0.2	0.1
Net income (RMB mn)	439	565	719	857	982
EPS (RMB)	0.26	0.29	0.37	0.45	0.51
YoY growth (%)	15.4	12.4	27.2	19.2	14.6
Consensus EPS (RMB)	N.A.	N.A.	0.45	0.58	0.71
P/E (x)	18.3	16.3	12.8	10.8	9.4
P/B (x)	2.6	2.8	2.6	2.3	2.1
Yield (%)	3.5	4.2	4.7	5.6	6.4
ROE (%)	14.3	16.9	19.9	21.8	22.9

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Initiation)

Target Price	**HK$8.09**
Up/Downside	**+40.7%**
Current Price	**HK$5.75**

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Stock Data

Mkt Cap (HK$ mn)	11,258
Avg 3 mths t/o (HK$ mn)	37.18
52w High/Low (HK$)	7.20/3.06
Total Issued Shares (mn)	1,958

Source: Bloomberg

Shareholding Structure

Greentown China Holings Ltd	73.17%
SUPUR Industrial capital	2.99%
LOU GONGWANG	1.27%

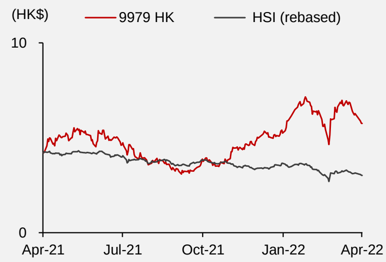
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-4.0%	-1.5%
3-mth	9.9%	32.7%
6-mth	48.5%	86.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Investment Thesis

Leading position with multiple benefits

Greentown Management is the leader in the industry in terms of No. of projects, GFA under management and total revenue. The company is likely to expand faster than industry due to the rich experience and healthy competitive landscape. As the largest PJM service provider of affable housing project, the company is likely to become the biggest beneficiaries of the policy to increase affordable rental housing supply. Moreover, the company has disclosed 2.8% of total contracted GFA from capital project management in 2021 and has more than 20 projects at the negotiation stage in 2022, policy of accelerating the non-performing asset disposal will continuingly bring more business opportunities going forward. A M&A case disclosed in Jan-22 that will bring 26 projects with estimated uncollected PJM service fee of RMB2.0bn and a professional team with 37 core members to the company. The company stated to keep seeking M&A opportunities in the market as it has sufficient funds to do so. As such, the company's short term growth has been locked in and the long-term growth looks more positive than the industry average.

Role model of "asset-light" model

Greentown Mgmt. can be regarded as a role model of "asset-light operation" in the industry, expect for the business nature of not provide funding to land acquisition and construction, other reasons are: 1) it doesn't rely much on resources from parent co. and related companies. The company barely has business undertaken from the Greentown China. Only 20-30% of its managed project delivered to Greentown Service Group for providing community service as Greentown service is one of the supplier in its vendor library for client to choose. 2) The company is certain on not to invest equity in the contracted projects and currently has about 3% equity in 1-2 projects under management, worth about RMB1mn due to the historical reasons.

Competition advantage powered by brand and standardized service

The remarkable brand value of "Greentown" stands for a high price premium and high sell-through rate for projects that provide a strong competitive advantage. The company is the one in the industry who established a set of system to standardize services and products, "Green Star Standard" system is helping company to better fulfill complex needs from diversified clients and shorten the negotiation period with client.

Outstanding financials

The company presented growing cost control capability amid rapid business expansion, high gross profit margin around 40% and net profit margin at 20% level which higher than other companies in property industry chain. The company's financials showed clearly advantage on its high cash flow generating ability with close-to-zero borrowings, which has attracted much attention for the company and the industry. Partnered with high dividend pay-out ratio of 68% recorded in 2021, company is likely to provide decent return to investors in our view. Company's CEO has several times share buyback since the listing of the company that continue on lifting investors' confidence. The company has announced its inclusion to Hang Seng Index and Stock Connect which improved the stock's liquidity significantly and will bring more interests from investors in main land.

Risks

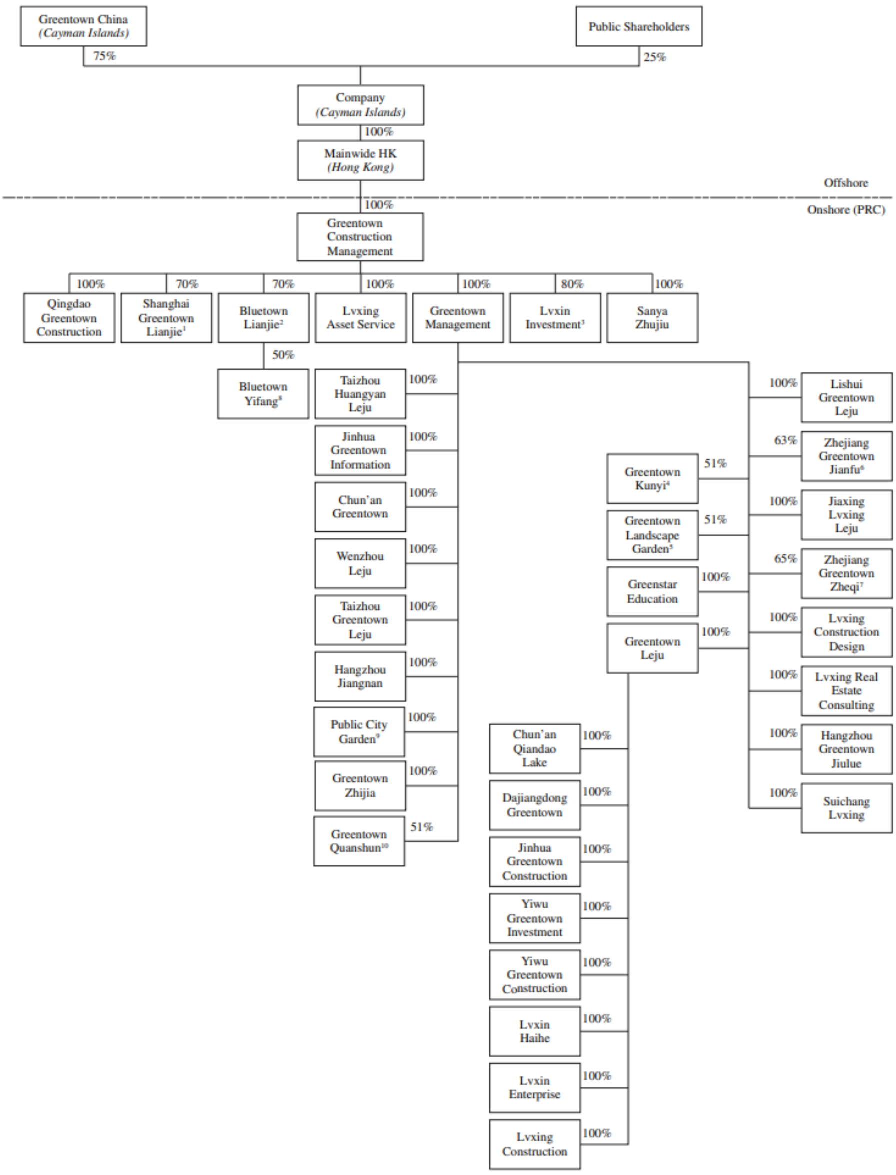
1) Weaker-than-expected performance of China property market which may adversely affect the company's main revenue contributing business.
2) Fiscal pressure of government may result in delay in payment of service fee.
3) Brand value damage may cause erosion of company's competitiveness.
4) Resurgence of the COVID-19.

Company Overview

Market leader on many aspects

Greentown Management Holdings, a subsidiary of Greentown China (3900.HK), was established in 2010 and spun off as an independent PJM service provider in 2016 then listed in HKEx in Jul-2020 as the first PJM companies that going public. The company engaged in the PJM business in 2005 through urban village renovation and resettlement housing projects in Hangzhou. By the end of FY21, the company (by its own and through cooperation with business partners) had 345 projects located in 101 cities across 28 provinces, with total GFA of contracted projects of 85mn sq m and in which 44 mn sq m is under construction.

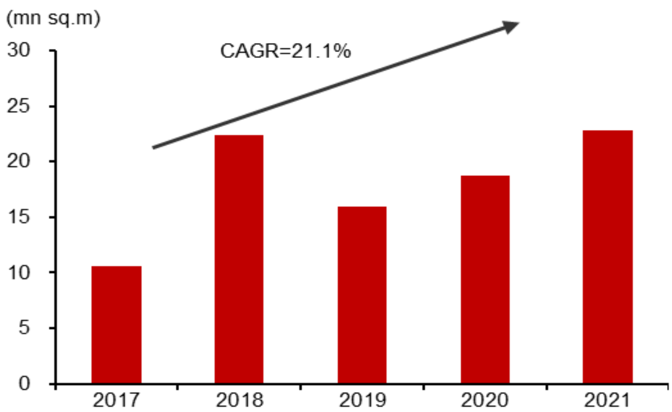
Figure 63: Shareholding structure



Source: Company data, CMBIGM

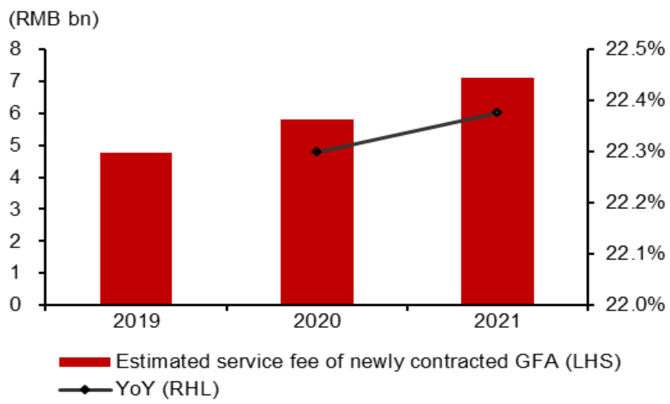
Greentown Management took the leading position in the industry and is showing rapid growth on both operating and financial data recorded. The company's newly contracted GFA grew from 10.6 sq m in 2017 to 22.8 sq m in 2021 with a CAGR of 21.1%, at the same level with the industry FY21-25 CAGR of 21.3% that estimated by CIA, corresponding total service fee that will be generated reach RMB7.1bn in FY21, a 22.4% YoY growth from RMB5.8bn in previous year. In 2020, the company disclosed 18.7mn sq m of newly contracted GFA, accounted for 22.3% of the total market, ranked the first.

Figure 64: Newly contracted GFA – Greentown Mgmt.



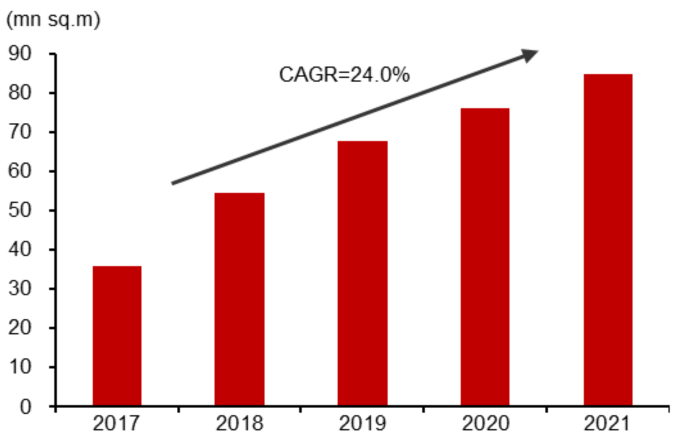
Source: Company data, CMBIGM

Figure 65: Estimated service fee of newly contracted GFA



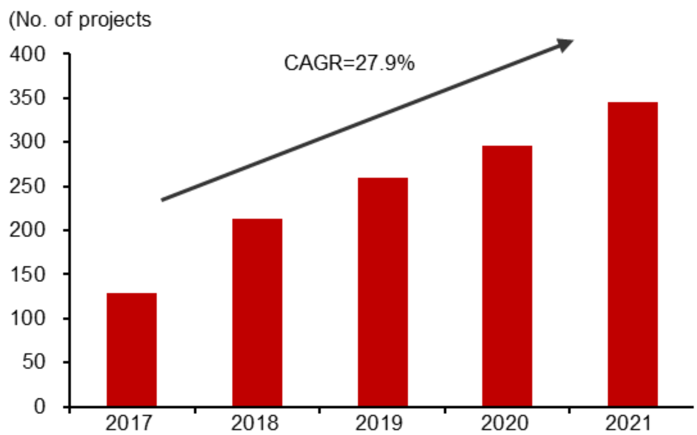
Source: Company data, CMBIGM

Figure 66: total contracted GFA – Greentown Mgmt.



Source: Company data, CMBIGM

Figure 67: Number of contracted project



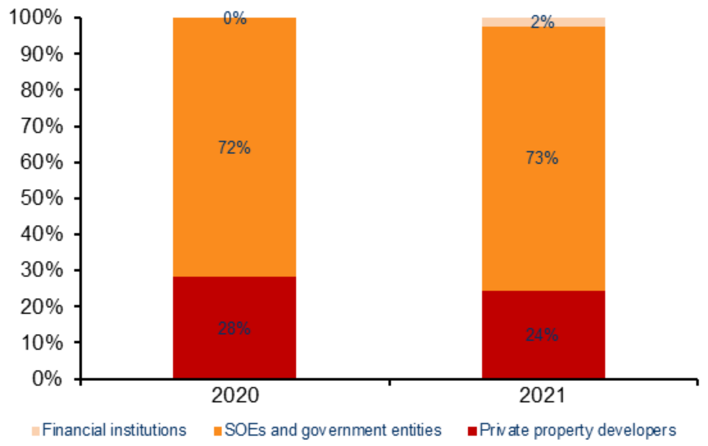
Source: Company data, CMBIGM

Revenue structure shifting driven by custormer change

The company's revenue declined 9% YoY to RMB1,813mn in 2020 due to the impact of COVID-19 pandemic that delayed the timetable of some projects. The revenue growth rate recovered to 24% YoY in FY21 and brought revenue to RMB2,243mn.

The company generates its revenue mainly from three business segments: commercial PJM, government PJM and other services (including consulting services, design consultation services) that contributed 66%, 25% and 9% of the total revenue in 1H21 compared to 79%, 15% and 6% in 2017. Revenue structure migration was driven by shifting customer structure. In commercial PJM, company serves not only SMDs, but also SOEs and FIs. According to the company, GFA under management of project entrusted by SOEs increased gradually and will continue to increase like we pointed out in industry section that SOEs and local SOEs became the main force in land action from 2020.

Figure 68: GFA under management by customer type



Source: Company data, CMBIGM

Projects mandated by FIs is currently accounted for 2% of total in terms of GFA under management, the company's current presence in this filed together with having it as one of the strategic focus will largely benefiting the company as the accelerating disposal of non-performing assets and increased participation of FIs in the real estate market. These changes are expected to be reflected in the company's revenue structure soon.

The only nationawide player, keep focus on high-tier cities.

Greentown Mgmt. is the first and currently the only company in the industry that basically completes the nationwide layout. By the end of FY21, the company's business distribution expanding to 101 cities in 28 provinces, approximately 76% of the total GFA of the contracted projects are in the five major metropolitan areas where 49.6% in the Yangtze River Delta, 18% the Bohai rim and Beijing-Tianjin-Hebei urban agglomeration, 6.8% in the Pearl River Delta and 1.7% in Chengdu-Chongqing urban agglomeration.

Figure 69: Geographic distribution

Source: Company data, CMBIGM

In terms of city class, around 57.9% of the total GFA in the whole industry are located in tier-3&4 in 2019, a small part located in Tier 1&2 cities, others located in county or even lower-tier cities, according to the CIA report. Greentown Mgmt. distribute approximately 44.1% of total business in tier-1&2 cities, 55.4% in tier-3&4 cities in PRC in terms of GFA under management suggesting it is targeting different market layer currently.

Figure 70: Business distribution by city class

	Managed GFA	% of Total
The PRC		
Tier 1 and 2	29,795.8	44.1%
Tier 3 and 4	37,432.6	55.4%
Overseas	295.7	0.4%
Total	**67,524.1**	**100%**

Source: Company data, CMBIGM

Greentown Mgmt. stated to further expand in economically developed region with high population density such as provincial capitals. Not only for benefiting more from "scale economies" but also defend against risks posed by different cities and different policies. According to the CIA, the proportion of PJM in tier-1&2 will increase and the proportion tier-3&4 will decrease in the future as tier 3-4 is facing high pressure in reducing the housing inventory.

Competitive advantages

Strong brand power

Brand is the core competitive advantage for PJM companies as a strong branding is vital for shaping a positive cycle in between three main parties involved in the business: PJM company, project owner and consumers (or property buyers). Consumers' satisfaction represents good user experience, which increase brand recognition that is a critical to obtain high price premium and high sell-through rate of projects, that enables the PJM company to be favored by land owners and therefore expand business more easily. "Greentown" generated remarkable brand value through years' efforts. It stands for the good quality to property buyers and a high price premium and high sell-through rate for projects as such provide a strong competitive advantage.

Standardization: establishing standard for industry to refer to

The company is the first player in the industry that established system to standardize service and products, "Green Star Standard" system is helping company to better fulfill complex needs from diversified clients which fortified company's advantage among competition. The Green Star system simplified the negotiation process and largely saved time to reach the agreement by several main steps as following:

1) Set star class for projects, different star ratings corresponding to different definition of rights and responsibilities, different levels of expenses of projects, different profit sharing mechanisms, etc. The star class is clarified to land owners before signing a management agreement.
2) Set indicators based on the concerns of the project owner, suppliers, and consumers (home buyers) that cover the mainly four aspects: products, suppliers, operations, and services.
3) Provide visualized menu for project owners to select products, suppliers, operation teams and community service providers, etc.

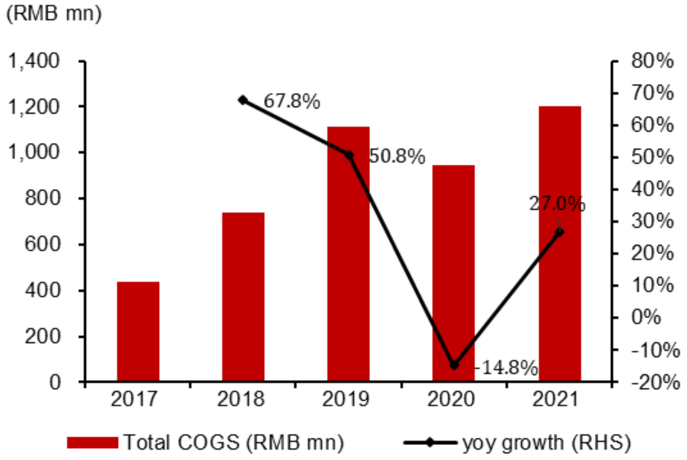
With the standardized system, the ordinary service buying process is simplified to package selection mode.

Growing cost control ability and high profitability

The company presented proper cost control ability amid rapid business expansion and resulted in remarkable profitability in track record. While cost of services rose by 67.8% YoY in 2018 and 50.8% YoY in 2019 primarily due to the increase in service costs which contributed 42.3% in 2018 versus 62.1% in 2019 of total costs, mainly resulting from higher service fee shared to business partners as the number of commercial projects cooperated with business partners increased from 37 in 2017 to 89 in 2019. Additionally, higher outsourcing costs was booked in 2018 and 2019 for using quality suppliers for government project management.

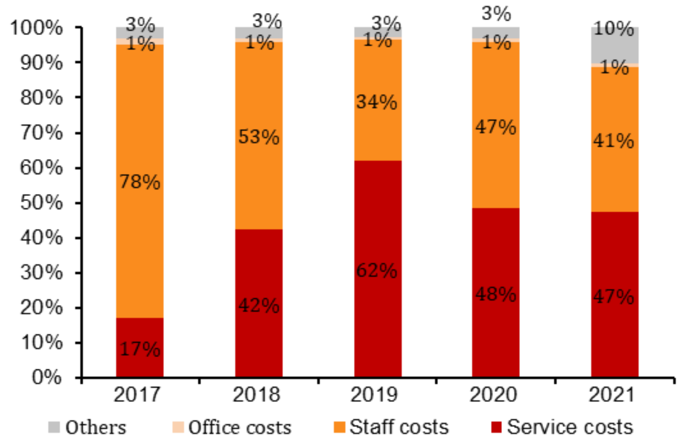
By reducing high-cost business units and improving operating efficiency, company's total cost of service achieved a -14.8% YoY decrease in 2020, but revert to a 27% YoY increase in 2021 mainly caused by establishment of two new regional-level companies for better national expansion of government PJM business. while the % of staff costs were narrowed to 41% of total COGS in 2021 from 47.5% in 2020.

Figure 71: COGS of Greentown Mgmt.



Source: Company data, CMBIGM

Figure 72: COGS breakdown

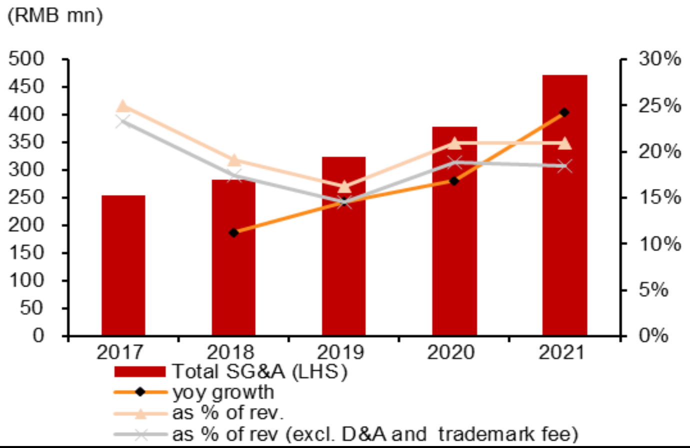


Source: Company data, CMBIGM

The Company has made decent improvement in selling, marketing and administration expenses (SG&A here after) from 2017 to 2019, with total SG&A as % of revenue scaled back from 25.0% to 16.3% respectively, given the company initiated a large one-off marketing to target clients and departured certain middle-senior employees in selling department during the period.

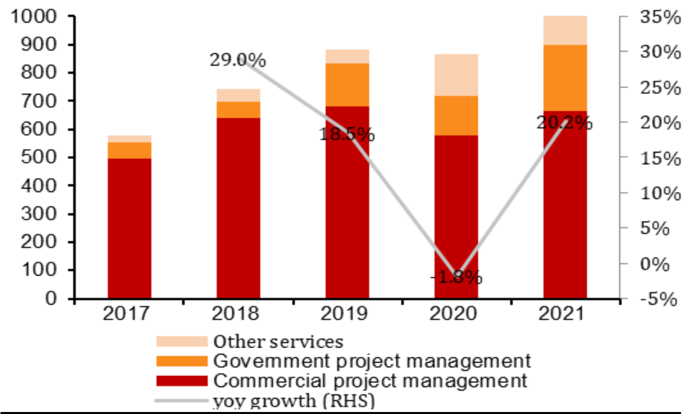
Such expenses had resumed to increase trend and reported total SG&A as % of rev. of 21% in FY20 but maintained stable in FY21 with 21% of total revenue, except for the advertising and promotion fees and labor costs increase driven by on-going national business expansion especially in government project management, the main reasons for the increase include 1) company started paying trademark license fee to the parent company according to the agreement, which occurred RMB14.4mn and RMB32mn in FY20 and FY21 respectively. 2) the company began to adjust its three-tier operating structure (Group-regional-project) to improve strength in regional companies by more staff reserve. If excluded the impact from depreciation and amortization as well as trademark license fee, SG&A accounted for 18.8% and 18.4% of total revenue in FY20 and FY21.

Figure 73: SG&A of Greentown Mgmt.



Source: Company data, CMBIGM

Figure 74: Gross profit of Greentown Mgmt.

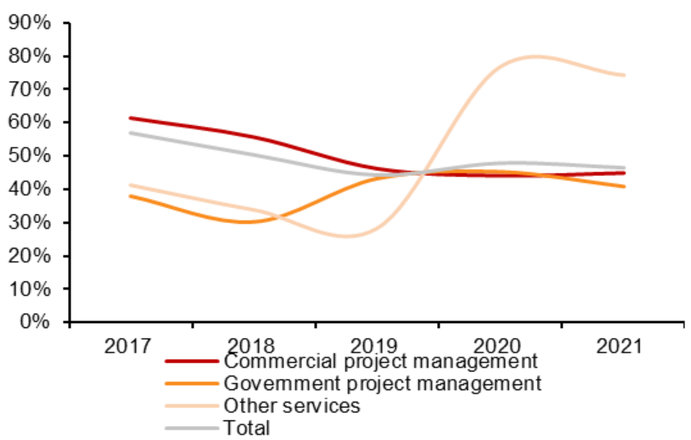


Source: Company data, CMBIGM

By the overlay of business nature and competitive advantages mentioned above, the company reported gross profit YoY growth of 18.5%, -1.8% and 20% in 2019, 2020 and

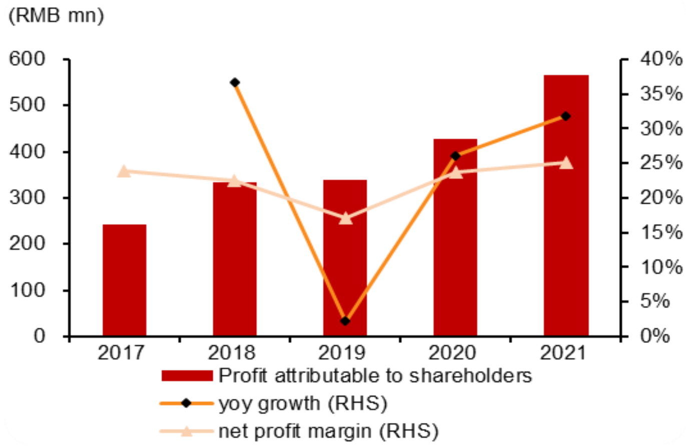
2021, suggesting gross profit margin of 44.2%, 47.8% and 46.4% respectively. In 2020, the growth slowdown was mainly due to impact of COVID-19 but the margin was improved by scale expansion and more effective cost control. The margin contraction in FY21 was mainly due to the accelerated national expansion and cross-provincial operation of government PJM business. In respect of business segment, the slightly GPM contraction for commercial PJM in FY20 was due to the impacts of the COVID-19 pandemic while fixed expenses such as labor cost remained payable. GPM surge of other services in 2020 was because the company didn't obtain grade 1 qualification for real estate development prior to listing so service costs of one project tendered by Parent Co. was expensed at the Parent Co. itself.

Figure 75: Gross profit margin for segments



Source: Company data, CMBIGM

Figure 76: Net profit of Greentown Mgmt.



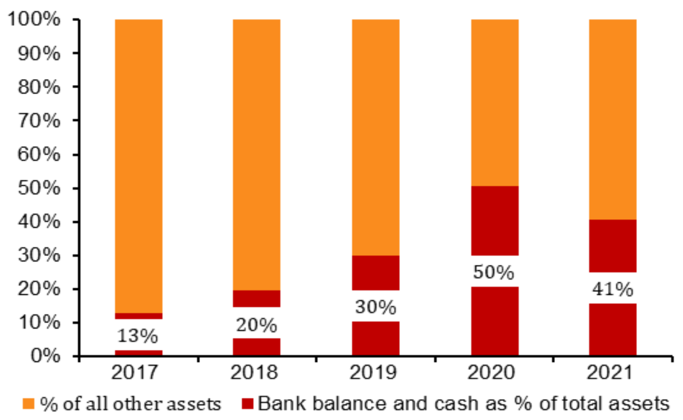
Source: Company data, CMBIGM

The company's ability of net profit generation shows a similar trend as gross profit generation. In 2020 and 2021, the company reported net profit attributable to the shareholders of RMB429mn and RMB565mn, representing growth rate of 26.1% YoY and 31.9% YoY, suggesting net profit margin of 23.6% and 25.2% respectively.

Asset-light with high cash flow and close-to-zero borrowings

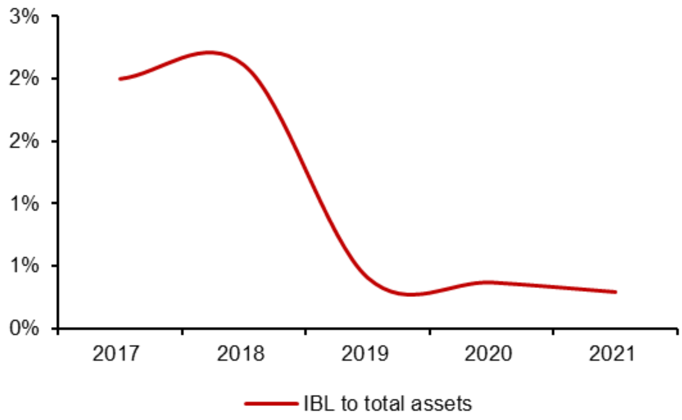
Greentown Mgmt.'s asset-light, high cash flow, close-to-zero debt natures were clearly presented by financials and operating data. By the end of FY21, company's bank cash represented 41% of total assets from 13% in 2017, the interest-bearing-liability to total assets dropped to 0.3% 2021 from 2.0% in 2017 as company has no bank borrowings starting from 2019.

Figure 77: bank balance as % of total assets



Source: Company data, CMBIGM

Figure 78: IBL to total assets



Source: Company data, CMBIGM

Experienced management team

The company's management team members have rich experience in the real estate industry and have expertise in PJM services industry. Certain core management members, including Chairman of the Board Guojiafeng, and Executive Director and Chief Executive Officer Mr. Li Jun, have been members of Greentown Group for over ten years.

Figure 79: Business distribution by city class

Management	Biography
Mr. GUO Jiafeng, Chairman	Aged 56, Guo has more than 33 years of experience in the industry, and has extensive experience in project development and construction. Mr. Guo joined the Greentown Group in April 2000, served as an executive director of Greentown China from July 2006 to March 2015, and acted as the executive general manager of Greentown Real Estate Group Co., Ltd. where he was primarily responsible for the real estate development of projects in areas such as Hunan Changsha, Zhejiang Hangzhou, Zhejiang Zhoushan, Jiangsu Nanjing, Anhui Hefei and Xinjiang. He was mainly engaged his personal business from April 2015 to July 2019. Mr. Guo was re-appointed as an executive director of Greentown China on 11 July 2019. He has been the Chairman of the Board and a non-executive Director of the Company since 8 January 2020, mainly responsible for the overall formulation, supervision and guidance of business strategies, planning and development of the Group. Currently, Mr. Guo also serves as an executive director and executive president of Greentown China. Mr. Guo graduated from Zhejiang Construction Industry Schoolin 1981, majoring in industrial and civil architecture.
Mr. LI Jun, CEO	Aged 44, has been the Chief Executive Officer and an executive Director of the Company since 2016, primarily responsible for the strategic development, overall operation and management of the Group. Mr. Li joined the Greentown Group as an officer in the quality management department in 2002 and subsequently served as a department manager in its operations management department since 2009. Mr. Li has served as general manager of Greentown's first commercial project management project since 2010. He has served as president of the Group since 2015. He completed his undergraduate studies in heating ventilation at the University of South China in the PRC in 1998 and obtained a master's degree in project management from Zhejiang University in the PRC in 2010. He has the AMP alumni qualification of the Wharton School of Business in the United States.

Source: Company data, CMBIGM

Financial forecasts

Expect steady growth in contracted GFA

We have made a series of assumptions to estimate future growth of the company.

1) Assume 4 years are needed to complete a project.

2) For commercial PJM, we assume 40% of constructed GFA, 50% of GFA under construction and 10% of GFA to be constructed has made contribution the management fee in the fiscal year.

3) For government PJM, we assume 20% of constructed GFA, 70% of GFA under construction and 10% of GFA to be constructed has made contribution the management fee in the fiscal year.

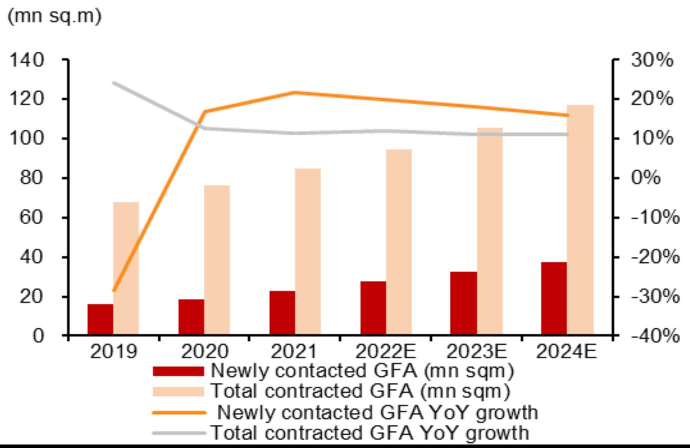
Base on the assumptions above, we project Greentown Management's newly contracted GFA of projects and total contracted GFA to increase 20% and 12% YoY and reach 27.3mn sq m and 94.8mn sq m. In FY22E, given a big M&A case announced in Jan-22 and project mandated by government and a batch of projected entrusted by FIs (included in commercial project) is likely be booked in FY22E.

And we expect the ASP of project in commercial PJM segment to increase 5% and the management fee rate to stay stable at 4% in FY22E. The management fee for government project is expected to increase 3% to RMB109 per sq m in FY22E.

The revenue from other service is estimated to increase 12% in FY22E given the company has cultivated several consulting and design companies that has already contributed to the profit of the company.

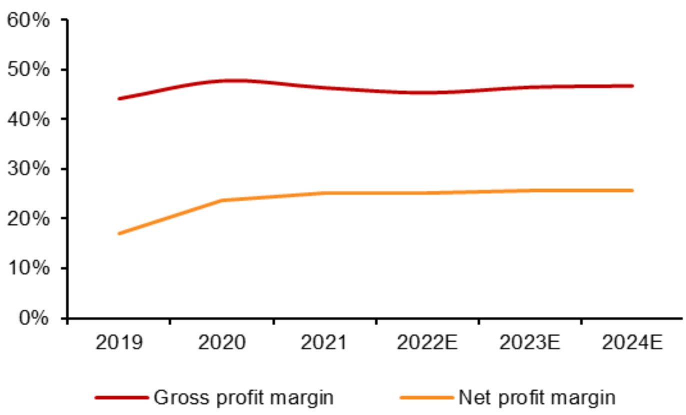
Accordingly, the total revenue is expected to increase 29% YoY in FY22E, the gross profit margin to be contracted to 45% in FY22E versus 48% in 2020 and 46% in 2021, the net profit margin to be stable at 25% in FY22E versus 24% in 2020 and 25% in 2021.

Figure 80: Contracted GFA forecasts



Source: Company data, CMBIGM

Figure 81: Profit margin forecasts



Source: Company data, CMBIGM

Valuation

Initiate with BUY rating

Take consideration of the Greentown Mgmt.'s leading position of the industry, well-preparation to benefit from government project boom, together with the high profitability and high dividend payout ratio, we initiate the Greentown Management at a BUY rating. we gave a 20% discount to the valuation based on 23x average FY22E P/E of property management industry who share the same asset-light business model but has recurring revenue from contracted GFA, arrived at a **18x FY22E P/E** of the PJM industry, suggesting a target price of **HK$ 8.09**.

Figure 82: Greentown Management forward rolling P/E band

Source: Company data, CMBIGM

招银国际
CMB INTERNATIONAL
招商银行全资附属机构
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Financial Summary

Income statement

YE Dec 31 (Rmb mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**1,813**	**2,243**	**2,767**	**3,242**	**3,722**
Commercial	1,312	1,478	1,723	2,002	2,286
Government	310	572	831	1,003	1,171
Other service	191	194	213	237	265
Cost of sales	(947)	(1,203)	(1,511)	(1,734)	(1,982)
Gross Profit	**866**	**1,041**	**1,255**	**1,507**	**1,740**
Selling and marketing					
Administration expenses					
Listing fee	(48)	(93)	(55)	(65)	(74)
Other gains and losses	(331)	(378)	(439)	(510)	(582)
Operating profit	(34)	-	-	-	-
	(31)	(10)	-	-	-
Finance cost - net	**422**	**560**	**762**	**933**	**1,084**
Pre-tax Profit					
	47	110	96	101	107
Income tax	**525**	**722**	**910**	**1,085**	**1,243**
Discontinued operations					
PROFIT FOR THE YEAR	(117)	(152)	(191)	(228)	(261)
Non-controlling interest	5	-	-	-	-
Net Profit	**412**	**571**	**719**	**857**	**982**

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21E	FY22E	FY23E	FY24E
Profit before taxation	**412**	**571**	**719**	**857**	**982**
Depreciation/amortization	24	24	24	24	24
Change in working capital	503	(404)	52	(9)	12
Others	(81)	(82)	(191)	(228)	(261)
Net cash from operating	**903**	**108**	**698**	**771**	**910**
Capex	(6)	(32)	(39)	(46)	(56)
Others	(110)	(29)	-	-	-
Net cash from investing	24	(47)	81	84	81
	(92)	**(109)**	**43**	**37**	**26**
Share issuance					
Net borrowings	(15)	(392)	(431)	(514)	(589)
Others	(524)	-	-	-	-
Net cash from financing	1,184	-	-	-	-
	(159)	133	(6)	(6)	(6)
Net change in cash	**486**	**(258)**	**(437)**	**(520)**	**(595)**
Cash at beginning of the year					
	1,258	(259)	303	288	341
	(39)	-	-	-	-
Exchange difference					
Cash at the end of the year	**1,139**	**2,397**	**2,138**	**2,441**	**2,729**

Balance sheet

YE Dec 31 (Rmb mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	**3,321**	**3,701**	**4,348**	**4,948**	**5,604**
Bank balances and cash	2,397	2,138	2,441	2,729	3,070
Trade and other receivables	388	749	924	1,082	1,242
Contract assets	317	482	595	697	800
Amounts due from related	203	240	296	347	398
Other current assets	16	92	92	92	92
Non-current assets	**1,427**	**1,543**	**1,564**	**1,587**	**1,619**
Property, plant and	98	102	120	140	167
Right-of-use assets	18	17	19	23	27
Investment properties	53	47	47	47	47
Goodwill	769	769	769	769	769
Interests in associates and	161	244	244	244	244
Long-term receivables	210	238	238	238	238
Other non-current assets	117	126	126	126	126
Total assets	**4,748**	**5,244**	**5,912**	**6,534**	**7,222**
Current liabilities	**1,619**	**1,844**	**2,239**	**2,541**	**2,868**
Trade and other payables	819	943	1,185	1,360	1,554
Amounts due to related	199	246	309	355	405
Contract liabilities	396	385	475	556	639
Others	205	270	270	270	270
Non-current liabilities	**26**	**29**	**29**	**29**	**29**
Deferred tax liabilities	**17**	**19**	**19**	**19**	**19**
Lease liabilities	9	10	10	10	10
Total liabilities	**1,645**	**1,872**	**2,267**	**2,570**	**2,897**
Equity to shareholders	**3,075**	**3,341**	**3,614**	**3,934**	**4,295**
Share capital	16	16	16	16	16
Reserves	3,059	3,325	3,598	3,918	4,279
Non-controlling interests	27	30	30	30	30
Total Equity	**3,102**	**3,372**	**3,645**	**3,965**	**4,326**

Key ratios

YE Dec 31	FY20A	FY21E	FY22E	FY23E	FY24E
Sales mix (%)					
Commercial	72.4	65.9	62.3	61.8	61.4
Government	17.1	25.5	30.0	30.9	31.5
Others	10.5	8.6	7.7	7.3	7.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Growth (%)					
Revenue	-9.1%	23.7%	23.3%	17.2%	14.8%
Gross profit	-1.8%	20.2%	20.6%	20.1%	15.4%
Operating profit	-22.5%	32.8%	36.0%	22.5%	16.2%
Net profit	35.3%	28.7%	27.2%	19.2%	14.6%
Profit & loss ratios (%)					
Gross profit margin	47.8	46.4	45.4	46.5	46.8
Net profit margin	24.2	25.2	26.0	26.5	26.4
Effective tax rate	22.4	21.0	21.0	21.0	21.0
Balance sheet ratios					
Cash/total assets (%)	0.5	0.4	0.4	0.4	0.4
Current ratio (x)	0.9	0.8	0.7	0.6	0.6
Receivable turnover days	78	122	122	122	122
Payable turnover days	315	286	286	286	286
IBL to total assets	0.02	0.00	0.00	0.00	-
Returns (%)					
ROE	14.3	16.9	19.9	21.8	22.9
ROA	9.3	10.8	12.2	13.1	13.6
Per share					
EPS (Rmb)	0.26	0.29	0.37	0.45	0.51
DPS (Rmb)	0.17	0.20	0.22	0.27	0.31
BVPS (Rmb)	1.83	1.74	1.88	2.05	2.23

Source: Company data, CMBIGM estimates

Central China Management (9982 HK)

Industry runner-up with worrying future growth

We initiate coverage of CCM with a Neutral rating and a target price of HK$1.36, based on 4.5x our FY22E P/E. Company ranked the 2nd by market share in the industry but its high exposure to the commercial PJM may suffer amid a property down-cycle and its dependency on Parent Co. deserve a valuation discount.

- **Key business growth under pressure** Central China Management, is the second largest company in the PJM industry in terms of market share of newly contracted GFA. It mainly focuses on commercial PJM in Henan Province and made the initial moves of entering the government PJM and capital PJM business. The company's commercial projects accounted 97% of total managed-GFA in FY21. In 3M22, it reported 0.32mn sq m of newly contracted GFA representing only 3% of that in FY21, together with the trend that market share of SMDs to be further shrink amid the property downcycle, we think the future growth of company is under great pressure.
- **Made its moves on national expansion but future remains to be seen.** By the end of FY21, CCM's has 93% of its revenue generated in Henan province. High business concentration could maximize resource synergy effect and cost effectiveness but is unfriendly to diversify the risks. While company made its progress and has 11 newly contracted projects outside the province in FY21 with newly contracted GFA of 1.3mn sq m, which is larger than the existing amount in 2020. While the company stated to expand in a stable way by rooting deeper in 7 provinces with market presence to keep project density and maintain the high profit margins.
- **Impressive profitability with high cash flow.** The company reported net profit margin of around 60% since 2018, mainly supported by cost effectiveness driven by high business concentration, having labor costs of project companies booked in land owner' sheet, and keeping self-operating of all project without sharing service fee to third parties. Meanwhile, it is also subject to nature of high cash flow and zero-interest-bearing liabilities.
- **Valuation/Key risks.** Our target price of HK$ 1.36 is based on 4.5x our FY22E P/E. We initiate at Neutral given the company's dependency on commercial project and Parent. Co.'s ecosystem as well as negative impact of high business concentration in one region. **Risks:** 1) Weak performance of China property market. 2) Weak economy or unexpected events in Henan province. 3) Worse-than-expected national expansion. 4) Worse-than-expected development in government PJM and capital PJM. 5) Brand value damage by Parent Co. and related companies.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	1,152	1,301	1,370	1,299	1,184
YoY growth (%)	12.0	13.0	5.2	-5.1	-8.8
Net income (RMB mn)	681	770	796	734	643
EPS (RMB)	0.23	0.24	0.25	0.23	0.20
YoY growth (%)	N.A.	6.2	3.3	-7.7	-12.4
Consensus EPS (RMB)	N.A.	N.A.	0.33	0.36	0.43
P/E (x)	4.5	4.3	4.1	4.5	5.1
P/B (x)	N.A.	N.A.	N.A.	N.A.	N.A.
Yield (%)	N.A.	14.8	14.5	13.4	11.7
ROE (%)	77.7	46.3	40.2	42.0	32.2

Source: Company data, Bloomberg, CMBIGM estimates

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HOLD (Initiation)

Target Price	**HK$1.36**
Up/Downside	**+8.8%**
Current Price	**HK$1.25**

China PJM Sector

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Stock Data

Mkt Cap (HK$ mn)	4,112
12Avg 3 mths t/o (HK$ mn)	2.18
52w High/Low (HK$)	2.95/0.80
Total Issued Shares (mn)	3,290

Source: Bloomberg

Shareholding Structure

Wu Po Sum	62.79%
Vanguard Group Inc	0.90%
Dimensional Fund Advisor LP	0.66%

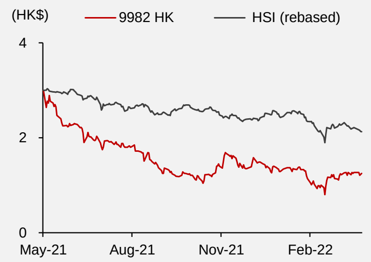
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	6.0%	8.8%
3-mth	-12.1%	6.1%
6-mth	-1.6%	23.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: KPMG

Investment Thesis

Progress in government and capital PJM can hardly offset the reduce in commercial PJM

Company announced its progress in new business segment but it seems far from offset the contraction in key business: 1) Company has made its initial moves and reported 6 government projects and 1 capital project under management in the whole year of 2021 and announced its strategic agreement with Henan Assets Management. 2) While in 3M22, company reported only 5 newly contracted projects with GFA of 0.32 mn sq m, accounted for 3% of that in 2021. 3) the company has 87 of newly contacted projects in 2021 suggesting c.20 projects in each quarter, indicating the company's key business in 1Q22 has reduced by about 15 projects, the decrease obviously cannot be offset by 6-7 increase in new segment.

Made moves in national expansion, future growth yet to see

CCM's has 91.7% of its business concentrated in Henan in terms of GFA under management in FY21. The high project density could maximize the outcome from the resource synergy, "economies of scale" and cost effectiveness, but the whole business may be highly affected by economy and policies of a single region, which is unfriendly to risk diversification. The company is actively pursuing a nationwide expansion and has 24 projects located outside the Henan province by the end of 2021, 11 of them are newly contracted projects with contracted GFA of 1.3mn sq m accounted 13% of total newly contracted GFA. The company also stated that the expansion strategy is not to quickly cover more provinces but to carry out in-depth development in the 7 entered-provinces other than Henan in order to keep project density and maintain the high profit margins of the company. We are doubtful about the future growth outside the province with company's above-mentioned intention.

Differentiated strategy supporting premium pricing power

The company adopts differentiated development strategy and mainly develops in low - tier cities, unlike Greentown Management which mainly focuses on tier-1 and tier-2 cities, CCM is committed to serve project owners by developing projects with higher quality in lower-tier cities, such as county-level or prefecture-level cities. As the low price base in these cities give the foundation for company to raise price for project under management thus easier to sell with a good premium which in return bring more premium management service fee for the company. By rooted in Henan province, the brand "Jian Ye" has impressive reputation in the region with its high-quality and good community service, which will bring more premium pricing power for the CCM.

Impressive financials

The company has high profitability with a net profit margin of 59.2% in both FY20 and FY21. Mainly driven by 1) regional development with high concentration brings "economies of scale" and cost effectiveness. 2) personnel stationed in the project level companies were expensed by the project owners, which largely lowered the operating costs. 3) CCM has all of its projects self-operated, with no need to pay service fee to business partner as Greentown Management. The company has no interest-bearing borrowings but has high cash flow generated by operating activities similar to the Greentown Management, while its asset-light nature is on way to become more mature as dependency on ecosystem built by Parent Co. and related companies. However, company's improvement could be clearly seen over the increase in revenue generated independently from third party clients.

Risks

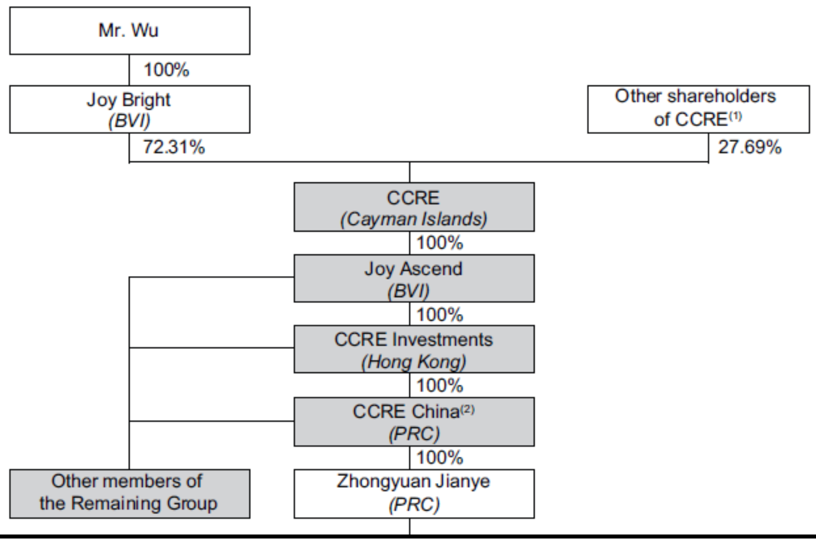
1) SMEs are more likely to succumb to problems with capital chain and may result in failure to fulfil their contractual obligation.
2) Weak performance of China property market.
3) Weak economy or unexpected events in Henan province.
4) Worse than expected development in government PJM and capital PJM.
5) Increasing risk of brand value damage as its Parent Co. “Central China Group” is at the risk of debt default.
6) Resurgence of the COVID-19.

Company Overview

Industry runner up with focus in Henan Privince

Central China Management, (CCM here after), a subsidiary of Central China Real Estate (832.HK), was established in 2016 to provide PJM service as an independent company and then listed in HKEx in May-2021 as the second PJM companies that going public. The company mainly engaged in the commercial PJM business in Henan province. By the end of FY21, the company had 261 projects located mostly in Henan Province with total contracted GFA under management of 30.8 mn sq m.

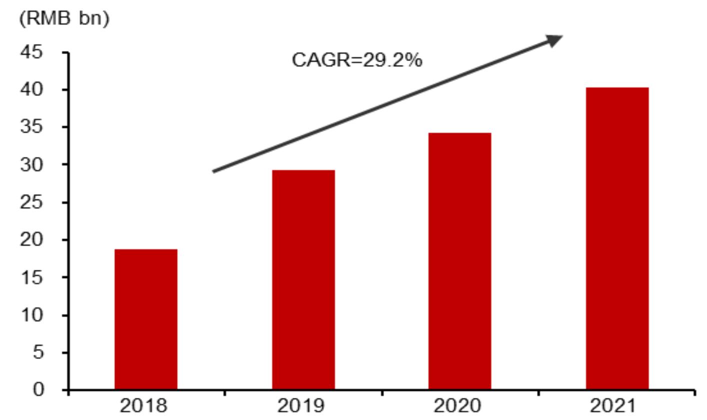
Figure 83: shareholding structure



Source: Company data, CMBIGM

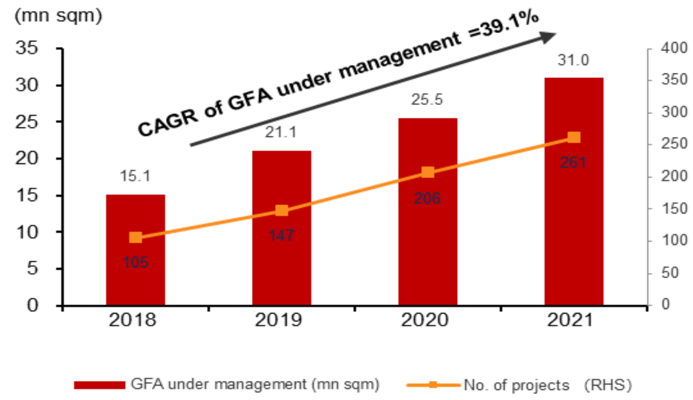
CCM has achieved rapid development in recent years and presented impressive increase in the number of projects under management, corresponding GFA and contracted sales amount. The number of newly-contracted project has reached 87 in 2021 from 39 in 2018, suggesting newly-contracted GFA of 10.0 mn sq m in 2021 from 4.6mn sq m in 2018. The company reported total contracted sales of RMB40.3bn in 2021 from RMB18.7bn in 2018, with a 3-year CAGR of 29.2%. From 2018 to 2021, the GFA under management increased from 11.5mn sq m to 31.0mn sq m with a CAGR of 39.1%, the total No. of projects under management increased from 105 to 261 with a compound growth rate of 35.5%.

Figure 84: Contracted Sales (RMB Bn)



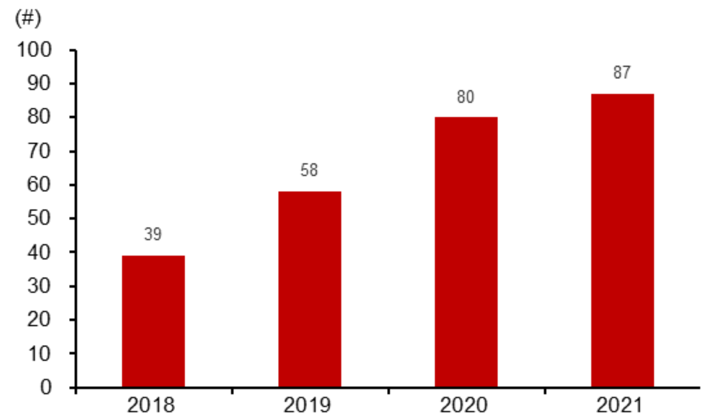
Source: Company disclosure, CMBIGM

Figure 85: Managed GFA and No. of Projects



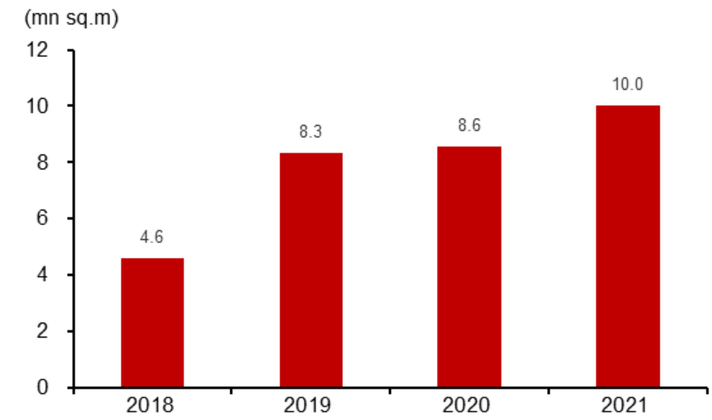
Source: Company disclosure, CMBIGM

Figure 86: Number of Newly Added Projects



Source: Company disclosure, CMBIGM

Figure 87: Newly Contracted GFA



Source: Company disclosure, CMBIGM

According to CIA, the Company captured a 10.6% market share in terms of newly contracted GFA national wide, ranking the 2nd. The Company mirrors its Parent Co. and is regionally focused in Henan where it captures 70.2% of market share in terms of newly contracted GFA in 2020 among the Top 3 PJM companies in province. In respect of total GFA under management, company has reported 27.8mn sq m by the end of 1H21, about 92.5% of total located in Henan province, other 7.5% of total distributed in Hebei, Shanxi, Shaanxi, Anhui, Hainan and Xinjiang province.

Figure 88: Central China Management's industry ranking in Henan province by newly contracted GFA in 2020

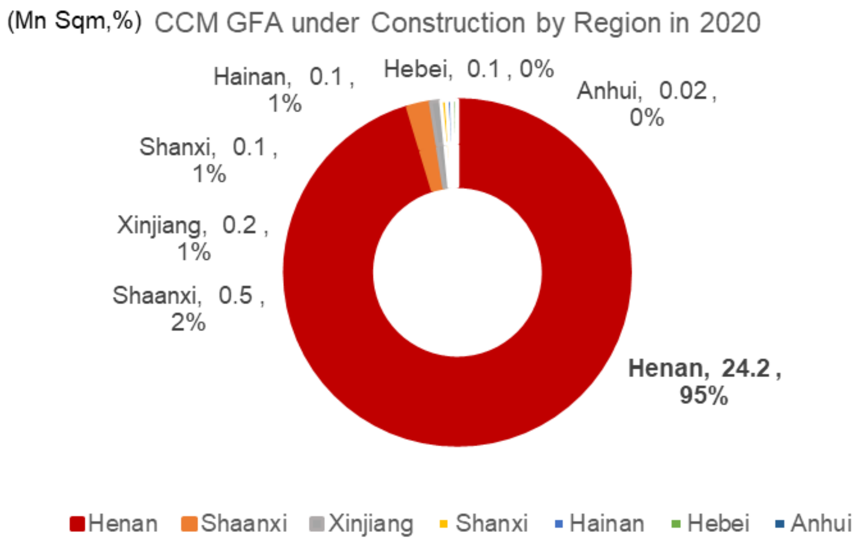
Ranking	Company	Market share
1	Central China Management	70.2%
2	Company B	13.8%
3	Company C	7.0%

Source: Company data, CMBIGM

According to the company's prospectus, the GAGR of total contracted GFA of PJM industry in China and Henan Province are expected to reach 5.9% and 9.5% from 2020 to 2025, the commercial PJM which is the CCM's business focus is likely to have 12%

and 16% CAGR in the country and Henan province respectively. Based our calculation of the industry future growth, **we suggest to view the above mentioned growth rate at a discount as the maximal market size is likely to shrink in our view (See industry section).**

Figure 89: Central China Management's GFA under Construction by Region in 2020



Source: Company data, CMBIGM

Focus on commercial project, stepping in govement project and capital proeject

The company's reported revenue of RMB1,029mn, RMB1,152 and RMB1,301mn in 2019, 2020 and 2021, representing the growth rate of 52%, 12% and 13% YoY, respectively. The growth slowdown in 2020 was due to the impact COVID-19 pandemic that delayed the project schedule.

The company generates its revenue mostly from commercial PJM that mainly serves SMDs and increased 6 government projects and 1 capital projects by the end of FY21. the total project type covers 98.7% of residential projects 1.3% of commercial projects in FY20.

The company stated to further step in government PJM and capital PJM in the future, as well as consulting services that do not need brand licensing service. For government PJM business development, company is targeting to start with local governments as company has deep rooted in Henan province and has built sound relationship with different levels' local government in Henan province. With not so many incumbents in capital PJM business that serves FIs, CCM believes it has better opportunity to acquire orders based on its rich experience. As to consulting business, the company reported 2 newly contracted project in FY21.

Fee structure:

CCM's fee structure is different from Greentown Management, it contains basic management service fees and premium management service fees. The basic management service fee is usually charged at a fixed rate of total sales amount of project or on a per square meter basis, the price ranging from RMB85 per sq m to RMB485 per sq m depending on the level of city', property type and size. Premium management service fees are based on sales performance, that is, the percentage of sales exceeding pre-agreed sales, generally charged at 10%-20%.

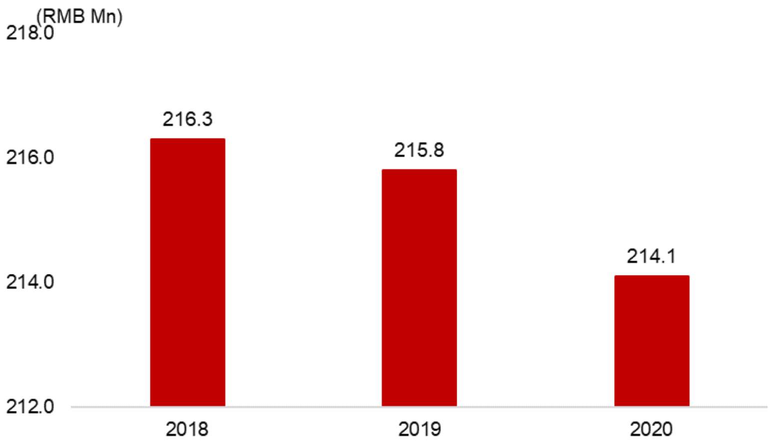
In three fiscal years from 2018-2020, the company's average basic management service fees per sq m were RMB216.3, 215.8 and 214.1 per sq m, respectively, and contributed revenue of RMB571.9mn, RMB881.1mn and RMB1,089.1mn representing 84.5%, 85.6% and 94.5% of total revenue, respectively. Premium management service fees contributed RMB104.5mn, RMB147.9mn and RMB63.0mn accounted for 15.5%, 14.4 and 5.5% of total revenue.

Figure 90: Central China Management's Profit Model

CCM Profit Model		
	Fee Structure	Remarks
Basic PJM	1. Managed GFA under Construction x Pre-agreed rate per sqm 2. Less frequently, a pre-agreed % of the sales value of project managed	County Level: Residential RMB85-285/sqm; Commercial RMB135-485/sqm City Level: Residential RMB135-350/sqm; Commercial RMB185-485/sqm
Premium PJM	If sales volume exceeds pre-set price target, then 10%-20% on the portion above target will be collected as premium management service fee	

Source: Company data, CMBIGM

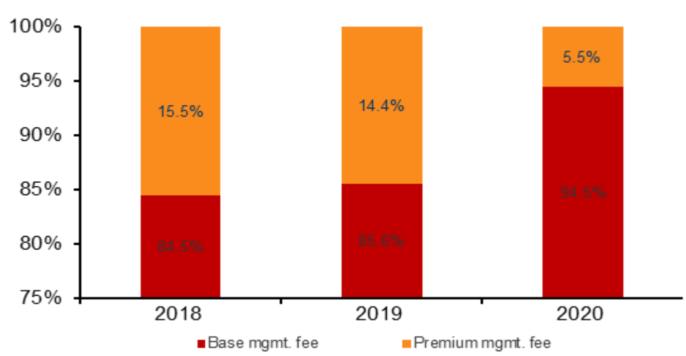
Figure 91: Central China Management's Average Management Fee per sq m



Source: Company data, CMBIGM

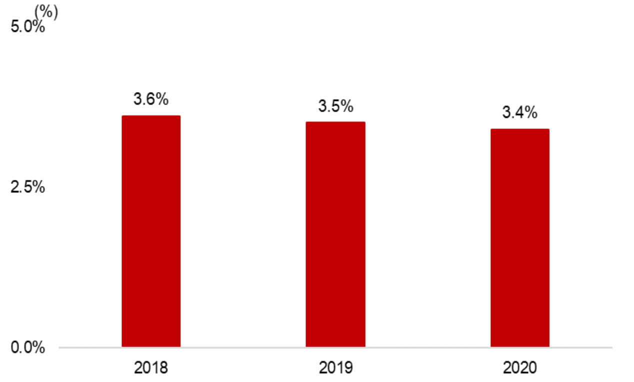
As to management fee rate, the company reported 3.6, 3.5% and 3.4% of total contracted sales from 2018 to 2020, which is at the average level of the industry.

Figure 92: Management Fee Structure



Source: Company disclosure, CMBIGM

Figure 93: CCM's Average Management Fee as % of Contracted Sales



Source: Company disclosure, CMBIGM

Competative advantage

Premium pricing: low-tier city focus with regional brand power

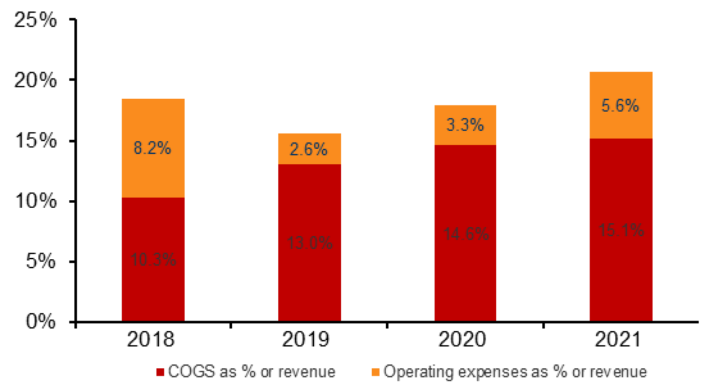
CCM's strategy is mainly to help project owners develop projects with better-then-average quality for low-tier cities, such as county-level or prefecture-level cities. As the low price base in these cities, the projects managed by the company have more ability to raise prices and sell with a better premium, which in return bring more income for the company.

By many years' operation and development of Parent Co. Central China Real Estate Group, the brand "Jian Ye" has a high reputation in Henan Province. Partner with high-quality community service and certain value-added service free of charge provided by the company's related company – Central China New Life, the project branded with "Jian Ye" is able to sell with a more price premium. According to the company, some projects in country-level cities showed the strong premium pricing power, the ASP is 10-18%% higher than project nearby in the same year.

Profitablity supported by cost saving and self-operating

The company showed remarkable profitability in the tracking record and reported net profit margin in 2019, 2020 and 2021 of 62.3%, 59.2% and 59.2% respectively. The reasons mainly including 1) the company's business high concentrated in the same region and the business focus on commercial PJM only, which in favor of maximizing the synergy of resources and scale effect. 2) CCM's expenses of personnel stationed in the project companies were directly paid by the project owner, the personnel cost of the company only covers the group and regional companies, thus the operating cost has been reduced to a certain extent. From 2019 to 2021, the avg. labor costs accounted for 14.3% of revenue, and the avg. operating expenses accounted for 3.8%. 3) Unlike Greentown Management who have some projects cooperated with partners and need to pay service fees to partners. All projects of CCM are self-operated, hence the revenue and profits were totally retained to the company it-self instead of sharing with partners.

Figure 97: **Cost of % of revenue**

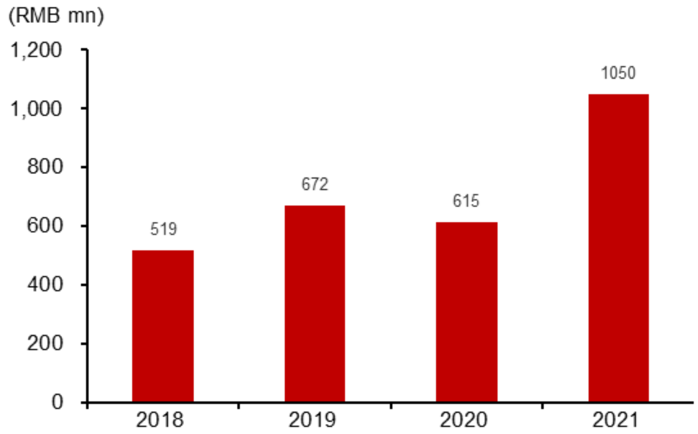


Source: Company data, CMBIGM

High cash flow with zero-debt

Similar to Greentown management, CCM's financials data has stated its high cash flow, zero-debt nature. From 2018 to 2020, the net cash flow generated by CCM's operating activities was RMB 519mn, RMB671mn and RMB615mn, respectively, the number is calculated it to be RMB1,050 in FY21. By the end of 2020, the company has cash and cash equivalents of RMB1,976mn on the balance sheet, with no interest-bearing borrowings.

Figure 98: Net cash generated from operating activities

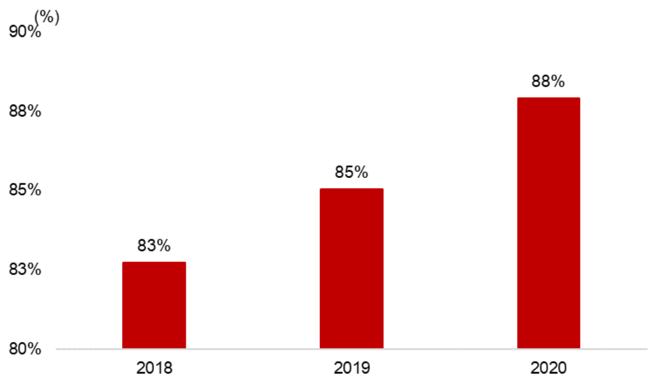


Source: Company data, CMBIGM

Relying on ecosystem: double-edged

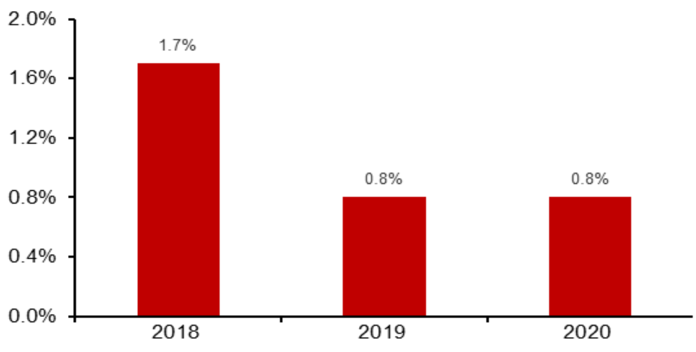
As mentioned in the industry section in our report that CCM's Parent Co. and related companies are providing additional value for CCM's and the company is growing on the back of the eco-system built by the whole "Jian Ye" Group, but the company has seen improvement on expanding business without help of Parent Co. from 2018 to 2020, the company reported revenue proportion derived from independent third party increased from 82.7% to 87.9%. While compared to the all-around leader in the industry Greentown Mgmt., it seems CCM need more efforts to develop independently.

Figure 94: Third-Party Projects as % of Revenue



Source: Company disclosure, CMBIGM

Figure 95: % of revenue contributed by Parent Co.



Source: Company disclosure, CMBIGM

While from the resource-synergy point of view, dwelling on ecosystem is conductive to make multi-benefits for all business units which is not easy to be copied by other players. However, this model also subject to the nature of "injure one injure all", indicating CCM is bearing the risks from other related companies in the ecosystem which is not positive during the market downturn.

Experienced management team

Both Chairman of the Board Wu Po Sum and Chief Executive Officer Mr. Ma Xiaoteng, had witnessed the company from establishment to the current development.

Figure 96: Management Team

Management Biography		
Name	Title	Biography
Mr. Wu Po Sum	Chairman and non-executive Director	Aged 70, is the Chairman of the Board, a non-executive Director and Controlling Shareholder of the Company. He was appointed as a Director on October 22, 2020 and was redesignated as an non-executive Director and appointed as the Chairman of the Board on November 6, 2020. Mr. Wu is responsible for formulating the overall development and strategic planning of the Group. Mr. Wu is one of the Controlling Shareholders. Mr. Wu is the father of Ms. Wu Wallis, a non-executive Director of the Company. Mr. Wu is also a director of various of subsidiaries, namely Start Ahead, CCMGT(HK) and Henan Start Ahead.
Mr. Ma Xiaoteng	CEO and Executive Director	Aged 44, is the CEO and an executive Director of the Company. Mr. Ma is mainly responsible for overall daily operation and management of the Group as well as strategic development. Mr. Ma is also a director of Henan Start Ahead, a subsidiary.
Mr. Hu Bing	Executive Director	Aged 44, is an executive Director of the Company. Mr. Hu is mainly responsible for overall daily operation and management of the Group as well as strategic development. Mr. Hu is also a director of various of subsidiaries, namely Zhongyuan Jianye, Henan Start Ahead and Zhongyuan Jianye (Hainan).

Source: Company disclosure

Financial forecasts

Expect a plunge in growth of newly contraced GFA

We have made a series of assumptions to estimate future growth of CCM.

1) Assume 4 years are needed to complete a project.

2) we assume accumulated GFA of projects of the fiscal year = beginning number of the year + annualized GFA addition – annualized GFA completed

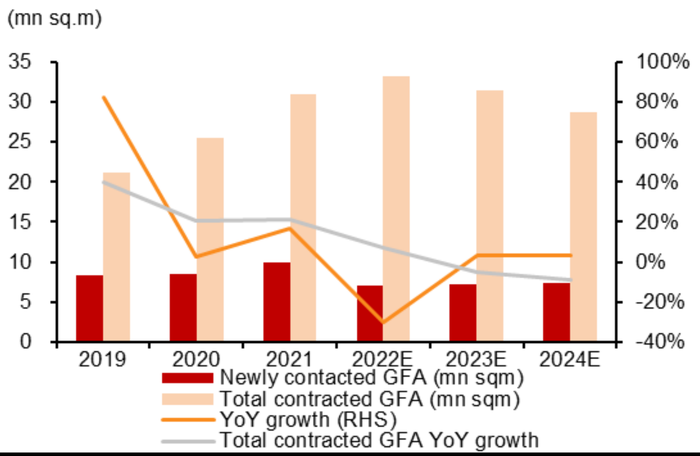
Given above assumptions, we project Central China Management' newly contracted GFA to increase -30% YoY, 3% YoY, 3% YoY and reach 7.0 mn sq m, 7.2mn sq m, 7.3 mn sq m in FY22E, FY23E, FY24E, respectively, as the company has reported 0.32 mn sq.m in 3M22 suggesting 3% of that in 2021 and we expect the main business to future decline but new business is still at the beginning stage.

We expect the ASP of project sold by the company to keep stable at RMB6.4K per sq m in FY22E, FY23E and FY24E. The largely lower than growth in 2021 was due to our expectation of low sentiment of the broader property market.

The total management service is expected to stay stable around 3.0% from FY22E to FY24E.

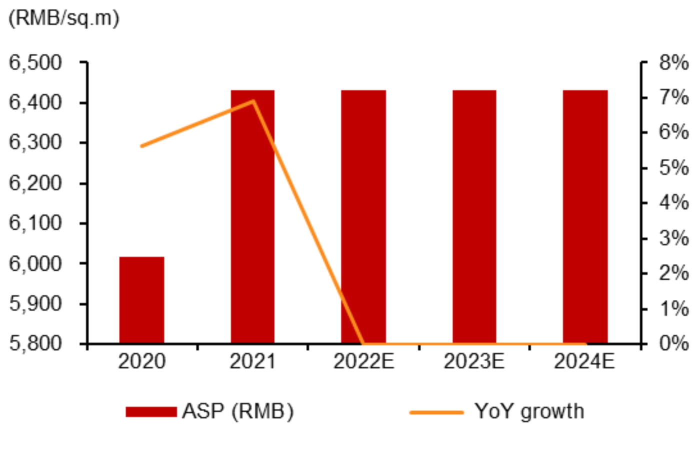
Accordingly, CCM's total revenue is expected to increase 7% YoY, -5%YoY and -9% in FY22E, FY23E and FY24E, respectively. The net profit margin is expected to stay at the range of 54-59% over the next projected years.

Figure 97: Contracted GFA forecasts



Source: Company data, CMBIGM

Figure 98: Contracted ASP forecasts



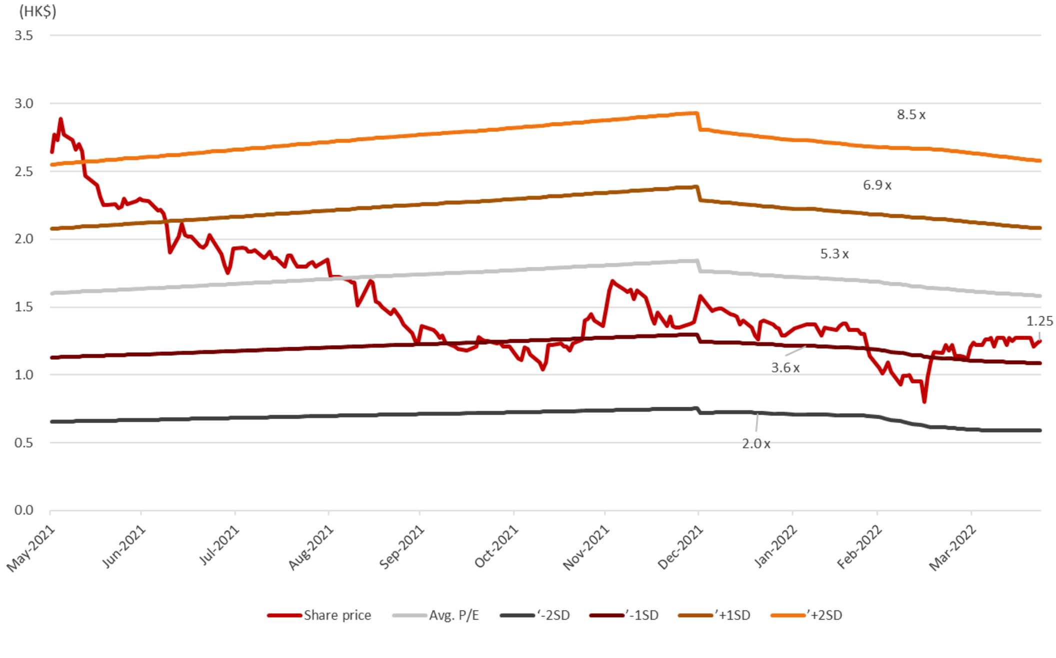
Source: Company data, CMBIGM

aluation

Initiate with Hold

We factored in the positives including company's high profitability with high cash flow together with the high dividend payout ratio, and the negatives including risks from its dependency on commercial PJM and ecosystem built by Parent Co., high business concentration in one region, as well as the possible brand damage risk caused by parent Co.'s debt default risk. We initiate the Central China Management at a Hold rating based on 4.5**x FY22E P/E** suggesting a target price of **HK$ 1.36**.

Figure 99: Central China Management forward rolling P/E band



Source: Company data, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	**1,152**	**1,301**	**1,370**	**1,299**	**1,184**
Residential	1,137	1,275	1,342	1,260	1,149
Commercial	15	26	27	39	36
Cost of sales	(168)	(197)	(212)	(208)	(201)
Gross Profit	**984**	**1,105**	**1,157**	**1,091**	**983**
Other income	6	35	9	10	11
Selling expenses	(39)	(72)	(87)	(99)	(107)
D&A	(13)	(18)	(21)	(23)	(25)
Listing Expense	(10)	(20)	-	-	-
Expected credit losses on	(14)	(15)	(10)	(11)	(12)
Operating profit	**914**	**1,014**	**1,048**	**968**	**850**
Finance cost	(0)	(0)	(0)	(0)	(0)
Pre-tax Profit	**912**	**1,01**	**1,04**	**966**	**846**
Income tax	(231)	(243)	(251)	(231)	(203)
PROFIT FOR THE YEAR	**681**	**770**	**796**	**734**	**643**
Non-controlling interest	-	-	-	-	-
Net Profit	**681**	**770**	**796**	**734**	**643**

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21E	FY22E	FY23E	FY24E
Profit before tax	**912**	**1,013**	**1,046**	**966**	**846**
D&A	13	(15)	(18)	(20)	(22)
Change in working capital	(93)	319	(612)	13	58
Others	(217)	(263)	(269)	(251)	(223)
Net cash from operating	**615**	**1,054**	**147**	**707**	**659**
Capex	(3)	(4)	38	(20)	40
Advance to related parties	(775)	-	-	-	-
Others	405	22	6	5	5
Net cash from investing	**(374)**	**17**	**44**	**(15)**	**46**
Dividend paid	(200)	(486)	(477)	(441)	(386)
Advances from related parties	-	-	-	-	-
Capital contribution from	4	-	-	-	-
Others	(6)	(6)	(6)	(6)	(6)
Net cash from financing	**(202)**	**(492)**	**(483)**	**(446)**	**(392)**
Net change in cash	39	579	(292)	247	313
Cash at the beginning	**345**	**385**	**964**	**672**	**919**
Exchange difference	-	-	-	-	-
Cash at the end of the year	**385**	**964**	**672**	**919**	**1,232**

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	**35**	**51**	**89**	**69**	**109**
Property, plant and	24	20	58	38	78
Others	11	30	31	31	31
Current assets	**1,640**	**2,844**	**2,074**	**2,302**	**2,526**
Contract assets	238	301	320	370	370
Trade and other receivables	1,017	568	1,082	1,014	924
Cash and cash equivalents	385	1,976	672	919	1,232
Total assets	**1,675**	**2,895**	**2,163**	**2,371**	**2,635**
Current liabilities	**663**	**574**	**517**	**513**	**481**
Trade and other payables	114	128	127	125	121
Others	549	446	390	388	360
Non-current liabilities	**5**	**2**	**5**	**5**	**5**
Lease liabilities	5	2	5	5	5
Total liabilities	**668**	**575**	**522**	**518**	**486**
Equity to shareholders	**1,007**	**2,320**	**1,641**	**1,853**	**2,149**
Non-controlling interests	-	-	-	-	-
Total Equity	**1,007**	**2,320**	**1,641**	**1,853**	**2,149**

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Residential	98.7	98.0	98.0	97.0	97.0
Commercial	1.3	2.0	2.0	3.0	3.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Profit & loss ratios (%)					
Gross margin	85.4	84.9	84.5	84.0	83.0
Net margin	59.2	59.2	58.1	56.5	54.3
Effective tax rate	25.3	24.0	24.0	24.0	24.0
Growth (%)					
Revenue	12.0	13.0	5.2	-5.1	-8.8
Gross profit	9.9	12.3	4.8	-5.7	-9.9
Operating profit	6.4	11.0	3.4	-7.6	-12.2
Net profit	6.3	13.0	3.3	-7.7	-12.4
Balance sheet ratios					
Current ratio (x)	2.5	5.0	4.0	4.5	5.3
Receivable turnover days	322	159	288	285	285
Returns (%)					
ROE	77.7	46.3	40.2	42.0	32.2
ROA	40.7	26.6	36.8	31.0	24.4
Per share					
EPS (RMB)	0.23	0.24	0.25	0.23	0.20
DPS (RMB)	0.00	0.15	0.15	0.14	0.12
BVPS (RMB)	0.32	0.73	0.52	0.59	0.68

Source: Company data, CMBIGM estimates

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