

Greentown Management (9979 HK)

1Q22 new contracts eased market concern

Company's stock price was up 11% since we published our [initiation report](#), mainly because its business development (BD) in 1Q22 was much better than peers which eased the market concern about the industry. With increasing positive property policies and the demand from social housing, new contacts volume of 2022 is likely to be guaranteed. We maintain our BUY rating and keep target price unchanged at HK\$8.09, suggesting 18x 2022E P/E.

- Service fee from new contracts declined but better than peers.** Company's estimated service fees from newly contracted projects was RMB2.1bn in 1Q22, down 10% YoY from RMB 2.34 bn in 1Q21, accounted for c.25% of FY22E. Company stated that the client (land owner) visits actually increased 17% YoY in 1Q22 while the COVID prevention policy was tightened in many cities that caused delay in the due diligence and the contact negotiation. The company's BD was much better than the market (GFA of land sold in 100 cities down 36% YoY, transaction value of 1st batch land supply down 54% YoY) which largely eased the recent market concern about "the industry might deliver very ugly BD data" in 1Q22.
- Favorable prop. policy + demand from social housing support the full year contracts volume.** With increasing favorable policy in property market that gradually spread to high-tier cities, we believe sales recovery in the year will lift sentiment in land market and backup the company's newly contracted project. Meanwhile, social housing completion target (2.4 mn units in FY22E) is likely to lift (according to the expert), which provides much guarantee for company's government project contacts. In 1Q22's new project estimated fee, capital projects contributed more than last year at 16% (government+SOE and SMD contributed 49% and 35%). In FY21, it accounted for 2.8% in terms of total contracted GFA.
- COVID impact and what to watch: 1) Business expansion.** The tightening COVID prevention policy may affect the no. of newly contracted projects, especially for capital projects with complex ownership. It usually takes 1-2 months for a normal project to sign the contact while about 1 extra month is needed for due diligence on capital projects. **2) Project sales.** Sales decline may lead to lag in fee collection of projects charged on sales progress. The company stated that the current sales decline has not affected the revenue yet. We estimated c.22% of revenue will potentially be affected if it continues. (Calculation: In FY21, 66% of revenue came from commercial PJM, 2/3 of which adopted a fee collection mechanism of charging according to "sales progress + construction progress", assuming 50% of fee charged on sales progress, total revenue counting on sales progress arrived at c.22%.) **3) Construction delay.** The company currently has 5 frozen projects due to the lockdown, accounting for 1.5% of the 334 projects in 110 cities. While the construction delay can be made up if the shutdown is less than 1 month, according to the company.
- Valuation/Risks.** Maintain Buy rating with target price unchanged at HK\$8.09, suggesting 18 x 2022E P/E. Risks: 1) Further spread of COVID impact. 2) Weaker performance of property market.

BUY (Maintain)

Target Price	HK\$8.09
Up/Downside	+35.0%
Current Price	HK\$5.99

China PJM Sector

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Stock Data

Mkt Cap (HK\$ mn)	11,728
Avg 3 mths t/o (HK\$ mn)	34.99
52w High/Low (HK\$)	7.20/3.06
Total Issued Shares (mn)	1,958

Source: Bloomberg

Shareholding Structure

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

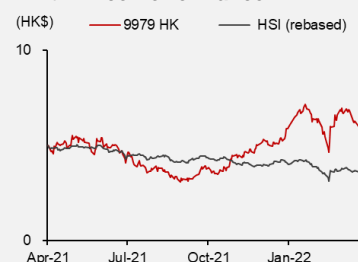
Source: HKEX

Share Performance

	Absolute	Relative
1-mth	-12.8%	-6.8%
3-mth	0.7%	16.9%
16.96-mth	24.5%	78.6%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Related Reports

1. ["How are we different from the market?" – 25 Apr 2022](#)

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 (%)	-9.1	23.7	23.3	17.2	14.8
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)	19.1	17.0	13.4	11.2	9.8
P/B (x)	2.7	2.9	2.7	2.4	2.2
Yield (%)	3.4	4.0	4.5	5.4	6.1
ROE (%)	14.3	16.9	19.9	21.8	22.9
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: 1Q22 estimated fee of newly contracted projects declined 10%

	1Q21	2Q21	3Q21	4Q21	1Q22
Newly contracted GFA (mn sqm)	9.0	3.0	4.6	6.1	n.a.
Estimated service fee (RMB bn)	2.3	0.9	1.6	2.3	2.1
yoy growth					-10%
as % of full year	33%	12%	23%	32%	25%

Source: Company data, Bloomberg, CMBIGM

Figure 2: 1st batch land supply in 2022

City	First batch land supply in 2022					1st batch in 2021
	Transaction value (100 mn)	yoy growth	No. of plot	price premium	passed % auction	Transaction value (100 mn)
Hangzhou	827	-30%	59	6.4%	2%	1,178
Beijing	480	-57%	17	4.0%	6%	1,110
Chengdu	393	11%	44	3.1%	12%	354
Ningbo	265	-26%	33	5.9%	0%	358
Nanjing	192	-81%	14	4.5%	30%	993
Changsha	174	-54%	22	0.2%	9%	381
Xiamen	154	-19%	9	6.2%	10%	190
Hefei	150	-45%	17	13.4%	41%	273
Chongqing	100	-84%	13	4.5%	0%	635
Wuhan	89	-89%	10	6.5%	9%	788
Fuzhou	82	-48%	12	4.0%	29%	157
Nantong	58	-86%	8	1.4%	11%	410
Tianjin	44	-91%	6	3.0%	80%	499
Total	3,007		264			7,325
Average		-53.7%		4.9%	18%	

Source: CMBIGM

Figure 3: Greentown Management forward rolling P/E band (as of 20220428)

Source: Company data, CMBIGM

Figure 4: Valuation table (as of 20220428)

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E			Net profit growth (%)	
						21A	22E	23E	22E	23E
PJM										
Greentown Management	9979 HK	BUY	8.1	6.0	11,728	17.0	13.4	11.2	27.2	19.2
Central China Management	9982 HK	HOLD	1.4	1.2	4,079	4.2	4.1	4.5	3.3	-7.7
Average						13.7	11.0	9.5	21.0	12.3
PM										
Country Garden Services	6098 HK	BUY	47.6	31.8	107,071	18.9	14.5	10.5	42.5	36.8
CR MixC Lifestyle	1209 HK	BUY	56.0	37.8	86,164	45.4	31.1	23.5	48.6	31.4
A-Living	3319 HK	HOLD	34.2	11.9	16,926	5.6	4.6	3.7	23.0	24.7
Greentown Services	2869 HK	HOLD	7.9	7.7	24,994	21.9	19.5	15.3	15.3	28.0
Ever Sunshine	1995 HK	HOLD	12.7	10.1	17,631	21.9	16.4	12.3	41.4	35.5
Poly Services	6049 HK	HOLD	53.4	51.0	28,220	26.3	21.8	17.1	22.6	26.7
S-Enjoy	1755 HK	SELL	8.5	8.7	7,529	8.9	7.2	5.3	26.7	33.7
Powerlong Commercial	9909 HK	BUY	33.2	7.8	4,982	9.0	6.6	5.0	35.5	32.3
Excellence CM	6989 HK	BUY	14.9	4.0	4,820	7.2	5.3	4.1	36.9	32.2
Central China New Life	9983 HK	BUY	12.9	4.0	5,077	6.6	5.2	4.2	29.2	24.6
Sino-Ocean Services	6677 HK	BUY	7.1	3.7	4,416	8.7	6.0	4.4	43.7	36.3
New hope Services	3658 HK	BUY	4.4	2.1	1,702	7.3	4.2	n.a.	55.5	n.a.
Redsun Services	1971 HK	BUY	9.4	3.2	1,320	6.9	n.a.	n.a.	n.a.	n.a.
Evergrande Services	6666 HK	BUY	10.4	2.3	24,865	5.6	4.2	3.2	32.1	31.2
Sunac Services	1516 HK	BUY	7.0	4.0	12,345	7.7	5.9	4.5	38.6	30.1
Average						23.5	17.4	13.1	37.8	32.0

Source: Company data, CMBIGM

Financial Summary

Income statement

YE 31 Dec (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 expenses	(48)	(93)	(55)	(65)	(74)
Administration expenses	(331)	(378)	(439)	(510)	(582)
Listing fee	(34)	-	-	-	-
Other gains and losses	(31)	(10)	-	-	-
Operating profit	422	560	762	933	1,084
Finance cost - net	47	110	96	101	107
Pre-tax Profit	525	722	910	1,08	1,243
Income tax	(117)	(152)	(191)	(228)	(261)
Discontinued operations	5	-	-	-	-
PROFIT FOR THE YEAR	412	571	719	857	982
Non-controlling interest	(27)	5	-	-	-
Net Profit attribute to	439	565	719	857	982

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21E	FY22E	FY23E	FY24E
Profit before tax	412	571	719	857	982
D&A	24	25	24	24	24
Change in working capital	503	57	52	(9)	12
Others	(81)	(119)	(191)	(228)	(261)
Net cash from operating	903	566	698	771	910
Capex	(6)	(21)	(39)	(46)	(56)
Advance/repayment of long-term receivables	(110)	(238)	-	-	-
Others	24	(238)	81	84	81
Net cash from investing	(92)	(497)	43	37	26
Dividends paid	(15)	(333)	(431)	(514)	(589)
Advance from/repayment of a related party	(524)	25	-	-	-
Proceeds from issue of new shares	1,184	-	-	-	-
Others	(159)	(15)	(6)	(6)	(6)
Net cash from financing	486	(322)	(437)	(520)	(595)
Net change in cash	1,258	(260)	303	288	341
Exchange difference	(39)	(6)	-	-	-
Cash at the beginning of the year	1,139	2,397	2,138	2,441	2,729
Cash at the end of the year	2,397	2,138	2,441	2,729	3,070

Balance sheet

YE 31 Dec (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 parties	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 equipment	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 JVs	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 parties	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 31 Dec	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 and CMBIGM estimates

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