

# Greentown Management (9979 HK)

## Recovered new contract growth, maintain BUY

Company's mgmt. shared its unaudited operating data on AGM. With factors including 1) new contract value growth has shown recovery from 1Q22, 2) +50% rev. growth to be delivered by government PJM in FY22, 3) commercial PJM is expected to improve with property market in 2H22, and 4) the launch of share award scheme with increasing southbound shareholding, we **maintain our BUY rating with target price of HK\$8.09**, suggesting 18x 2022E P/E. Three upside catalysts are worth waiting in our view: 1) more obvious recovery on property sales, 2) simplified & standardized capital project negotiation, and 3) funding pressure of urban investment companies is largely eased.

- New contract value: still facing pressure in 2H22, better Apr & May is a good sign.** 1) Company estimates the number in 1H22 to be flat from 1H21 at RMB3.2bn, suggesting c. RMB5bn is to be signed in 2H22 if they target +20% new contact value growth in FY22 (+23% in FY21). 2) RMB2.95bn was completed in 2022 YTD, representing RMB0.85bn in Apr & May 22, close to RMB0.88bn in 2Q21, showing recovery of contracting pace, which is positive to share price in our view as slower growth in full year new contract value has been priced in when 1Q22 data are released.
- Better fundamental in key business.** 1) Government PJM segment is estimated to have >50% rev. growth in FY22 to reach c.RMB860mn, accounting for 30% of total rev.( 25% in FY21) given a pile of social-housing projects signed in last two years moved to billable stage. 2) <10% of total rev. was affected by declining property sales according to mgmt. as only c.20% of total rev. linked to sales (calculation refer to [report](#)). We believe this part of rev. (mainly commercial PJM) will gradually improve in 2H22 as we see recovering property sales sentiment ([report 1](#), [report 2](#))
- New business: slower negotiation progress but solid demand.** 1) Capital PJM is more complicated than expected and needs longer time for negotiation process that results in delays in revenue contribution. It is expected to take <10% of total rev. in FY22 and 20% in the LT. 2) Projects from urban investment companies usually have longer bidding cycle, funding demand and may require a guarantee on project sales, Greentown Mgmt. said to be more selective and we think business growth of this part may deserve a discount unless financial pressure is eased by central government as rumor says. The demand seems quite solid from these two segments according to the company.
- Valuation/Risks.** Company announced a share award scheme that will use future bonus of next three years of authorized employees in advance to conduct share placement at HK\$5. The award can be exercised when the share price reaches HK\$6.5. Southbound capital is showing interest in Greentown Mgmt. with shareholding increased to 1.52%. With these support to business operation, stock price, stock liquidity, we maintain our BUY rating with target price unchanged at HK\$8.09, suggesting 18x 2022E P/E. **Risks:** 1) further spread of COVID impact, and 2) Weaker performance of property market.

### BUY (Maintain)

Target Price	HK\$8.09
Up/Downside	+48.4%
Current Price	HK\$5.45

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#### Stock Data

Mkt Cap (HK\$ mn)	10,671
Avg 3 mths t/o (HK\$ mn)	27.47
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%

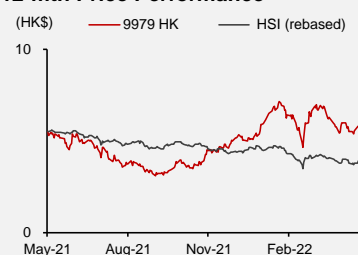
Source: HKEX

#### Share Performance

	Absolute	Relative
1-mth	-0.4%	-1.3%
3-mth	-14.8%	-3.6%
6-mth	22.2%	46.3%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: Deloitte

#### Related Reports

- ["1Q22 new contracts eased market concern" – 29 Apr 2022](#)
- ["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)	17.4	15.5	12.2	10.2	8.9
P/B (x)	2.5	2.6	2.4	2.2	2.0
Yield (%)	3.7	4.4	4.9	5.9	6.7
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: Apr & May new contact value recovery**

	2019	2020	2021	2022E	1H21	1H22E	1Q21	2Q21	3Q21	4Q21	1Q22	Apr & May YTD22	2Q22E
Newly contracted GFA (mn sqm)	16.0	18.7	22.8	27.3	12.0		9.0	3.0	4.6	6.1			
yoy growth	-29%	17%	22%	20%	23%				91%	-5%			
Estimated service fee (RMB bn)	4.75	5.81	7.11	8.53	3.22	3.30	2.34	0.88	1.61	2.28	2.10	0.85	2.95
yoy growth		22%	22%	20%	0%	2%			99%	28%	-10%		36%
Estimated service fee per sqm (RMB)	297	311	312	312	268		259	295	347	371			
yoy growth		4.6%	0.5%	0.0%									

Source: Company data, CMBIGM

**Figure 2: Greentown Management forward rolling P/E band (as of 20220526)**

Source: Company data, CMBIGM

**Figure 3: Valuation table (as of 20220526)**

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E			Net profit growth (%)	
						21A	22E	23E	22E	23E
<b>PJM</b>										
Greentown Management	9979 HK	Buy	8.1	5.5	10,671	15.5	12.2	10.2	27.2	19.2
Central China Management	9982 HK	Hold	1.4	1.1	3,750	4.2	4.1	4.5	3.3	-7.7
<b>Average</b>						<b>12.6</b>	<b>10.1</b>	<b>8.7</b>	<b>21.0</b>	<b>12.2</b>
<b>PM</b>										
Country Garden Services	6098 HK	Buy	47.6	27.5	92,653	16.4	13.0	9.7	35.9	35.5
CR MixC Lifestyle	1209 HK	Buy	56.0	38.7	88,219	46.5	32.6	24.7	38.9	31.4
A-Living	3319 HK	Hold	34.2	11.8	16,756	5.6	5.3	4.7	5.2	17.1
Greentown Services	2869 HK	Hold	7.9	7.6	24,808	21.8	19.5	15.3	12.6	27.9
Ever Sunshine	1995 HK	Hold	12.7	8.6	15,002	18.6	14.0	10.5	32.8	35.5
Poly Services	6049 HK	Hold	53.4	50.7	28,054	26.2	20.0	15.6	17.9	27.4
S-Enjoy	1755 HK	Sell	8.5	7.9	6,843	8.1	6.8	5.1	21.4	33.7
Powerlong Commercial	9909 HK	Buy	33.2	5.8	3,729	6.8	5.4	4.3	24.4	27.2
Excellence CM	6989 HK	Buy	14.9	3.7	4,466	6.7	5.0	3.8	36.9	32.2
Central China New Life	9983 HK	Buy	12.9	3.2	4,031	5.2	4.3	3.5	29.1	22.9
Sino-Ocean Services	6677 HK	Buy	7.1	3.3	3,955	7.7	5.6	4.1	43.7	36.3
New hope Services	3658 HK	Buy	4.4	2.2	1,799	7.7	4.5	n.a.	55.5	n.a.
Redsun Services	1971 HK	Buy	9.4	3.2	1,316	6.8	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	3.7	11,452	7.2	5.8	4.6	25.4	25.6
<b>Average</b>						<b>23.4</b>	<b>17.5</b>	<b>13.3</b>	<b>30.6</b>	<b>30.9</b>

Source: Company data, Bloomberg, CMBIGM

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>1,813</b>	<b>2,243</b>	<b>2,767</b>	<b>3,242</b>	<b>3,722</b>
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)
<b>Gross Profit</b>	<b>866</b>	<b>1,041</b>	<b>1,255</b>	<b>1,507</b>	<b>1,740</b>
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)	-	-	-
<b>Operating profit</b>	<b>422</b>	<b>560</b>	<b>762</b>	<b>933</b>	<b>1,084</b>
Finance cost - net	47	110	96	101	107
<b>Pre-tax Profit</b>	<b>525</b>	<b>722</b>	<b>910</b>	<b>1,08</b>	<b>1,243</b>
Income tax	(117)	(152)	(191)	(228)	(261)
Discontinued operations	5	-	-	-	-
<b>PROFIT FOR THE YEAR</b>	<b>412</b>	<b>571</b>	<b>719</b>	<b>857</b>	<b>982</b>
Non-controlling interest	(27)	5	-	-	-
<b>Net Profit attribute to</b>	<b>439</b>	<b>565</b>	<b>719</b>	<b>857</b>	<b>982</b>

### Cash flow summary

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

### Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Current assets</b>	<b>3,321</b>	<b>3,701</b>	<b>4,348</b>	<b>4,948</b>	<b>5,604</b>
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
<b>Non-current assets</b>	<b>1,427</b>	<b>1,543</b>	<b>1,564</b>	<b>1,587</b>	<b>1,619</b>
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
<b>Total assets</b>	<b>4,748</b>	<b>5,244</b>	<b>5,912</b>	<b>6,534</b>	<b>7,222</b>
<b>Current liabilities</b>	<b>1,619</b>	<b>1,844</b>	<b>2,239</b>	<b>2,541</b>	<b>2,868</b>
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
<b>Non-current liabilities</b>	<b>26</b>	<b>29</b>	<b>29</b>	<b>29</b>	<b>29</b>
Deferred tax liabilities	17	19	19	19	19
Lease liabilities	9	10	10	10	10
<b>Total liabilities</b>	<b>1,645</b>	<b>1,872</b>	<b>2,267</b>	<b>2,570</b>	<b>2,897</b>
<b>Equity to shareholders</b>	<b>3,075</b>	<b>3,341</b>	<b>3,614</b>	<b>3,934</b>	<b>4,295</b>
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
<b>Total Equity</b>	<b>3,102</b>	<b>3,372</b>	<b>3,645</b>	<b>3,965</b>	<b>4,326</b>

### Key ratios

YE 31 Dec	FY20A	FY21E	FY22E	FY23E	FY24E
<b>Sales mix (%)</b>					
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
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Growth (%)</b>					
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%
<b>Profit &amp; loss ratios (%)</b>					
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
<b>Balance sheet ratios</b>					
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	-
<b>Returns (%)</b>					
ROE	14.3	16.9	19.9	21.8	22.9
ROA	9.3	10.8	12.2	13.1	13.6
<b>Per share</b>					
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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