

Powerlong Commercial Management

An experienced player in commercial property management

- Driven by new mall openings from parent and third parties, we expect managed GFA under commercial operational services to increase at of 14% CAGR in 2019-21E
- Managed GFA under residential property management services (RPMS) will grow at 30% CAGR during 2019-21E on parent's fast-growing contracted sales
- We currently only assume retailers in PCMH's malls to receive temporary rent wavier due to COVID-19 in 1Q2020
- Initiate BUY with DCF-based TP of HK\$12.50

A leading commercial operational service provider in YRD. Powerlong Commercial Management Holdings (PCMH) is a leading commercial operational service provider in China. As of June 2019, the Group had 45 retail commercial properties under management with an aggregate GFA under management of ~6.4mn sqm, and was contracted to provide commercial operational services (COS) for a total of 59 retail commercial properties with an aggregate contracted GFA of ~7.5mn sqm. We believe the three key growth drivers for PCMH's COS business are: **1) Supportive parent company.** Powerlong Holdings (PH), PCMH's parent company of , targets to open 10 and 9 new malls in 2020, and 2021 ; **2) Asset-light expansion.** As of June 2019, the Group had four retail commercial properties owned/developed by independent third parties under management. PCMH had also entered into memoranda of understanding with independent third parties with respect to seven retail commercial properties with an estimated aggregate contracted GFA of ~590k sqm; **3) Solid tenant management:** PCMH has established relationships with a wide range of tenants, which include anchor stores such as movie theaters and supermarkets, national inline tenants, and local retailers. As of Dec 31, 2016, 2017 and 2018 and June 30, 2019, PCMH's brand bank had over 4,100, 6,100, 7,000 and 7,100 brands, respectively

Do not underestimate potential from residential property management services (RPMS). The Group provides RPMS for residential properties, office buildings, and serviced apartments. As of June 30, 2019, PCMH had 44 properties under management under the RPMS segment with an aggregate GFA of ~10.6mn sqm and was contracted to manage 69 properties with an aggregate contracted GFA of ~ 17.1mn sqm. Rising contracted sales (+47%YoY to RMB60.4bn) and GFA sold (+34%YoY to 3.77mn sqm) of PH for 2019 resulted in substantial undelivered contracted GFA for PCMH. As of June 2019, undelivered GFA of 6.5mn sqm for RPMS represented 61% of total GFA under management for RPMS.

Initiate BUY with TP at HK\$12.50. Since PM agreements determine a substantial portion of PCMH's revenue, we employ the DCF method for valuation based on the highly predictable cash flow. Our DCF-based TP of HK\$12.50 translates into 25.1x P/E and 3.4x P/B for 2020E, which is higher than the peer average. PCMH's share price corrected by 9% from the peak in mid-Jan to reflect the negative impacts of the COVID-19 outbreak on PCMH's COS business. However, we believe the market has not fully aware of PCMH's potential in residential PM, which is relatively defensive against economic downturn.

Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (RMB mn)	973	1,200	1,597	2,001	2,625
Chg (% YoY)	29.3	23.4	33.1	25.3	31.2
Core net profit (RMB mn)*	79	133	193	278	406
Chg (% YoY)	24.9	69.7	44.7	44.2	45.8
Core EPS (RMB)	0.13	0.21	0.31	0.45	0.65
Chg (% YoY)	24.9	69.7	44.7	44.2	45.8
BVPS (RMB)	0.15	0.37	3.03	3.34	3.79
Chg (% YoY)	442.0	138.6	719.0	10.3	13.7
Core P/E (x)	76.2	44.9	31.0	21.5	14.7
P/B (x)	62.1	26.0	3.2	2.9	2.5
ROE (%)	137.7	81.7	16.0	14.0	18.3
ROA (%)	4.2	6.8	5.8	7.2	9.4
DPS(RMB)	-	-	0.09	0.13	0.20
Yield (%)	-	-	0.97	1.39	2.03
Net gearing (%)	284.2	Net cash	Net cash	Net cash	Net cash

*Excluding listing expenses of RMB24mn in 2019, net of tax effect;
Note: RMB /HKD: 1.113

Company Report

Feb 14, 2020

Rating: BUY
TP: HK\$ 12.50

Analyst : Kenneth Tung
Tel: (852) 2147 8311
kennethtung@abci.com.hk

Share price (HK\$)	10.70
Est. share price return	16.8%
Est. dividend yield	1.0%
Est. total return	17.8%
Previous Rating & TP	NA
Previous Report Date	NA

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	12.04/9.05
Issued shares (mn)	623
Market cap (HK\$ mn)	6,661
Avg daily turnover since IPO (HK\$ mn)	32.21

Major shareholder(s) (%)	
Powerlong Holdings	65.06%
Huihong Management	7.23%

Source(s): Bloomberg, ABCI Securities

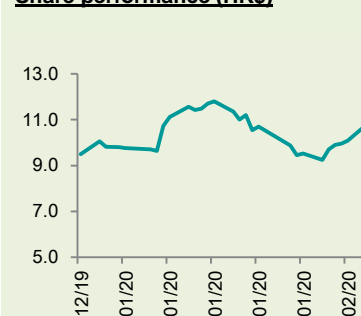
Share Performance (%)

	Absolute	Relative*
1-mth	(3.8)	(0.2)
3-mth	NA	NA
6-mth	NA	NA

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance (HK\$)



Source(s): Bloomberg, ABCI Securities

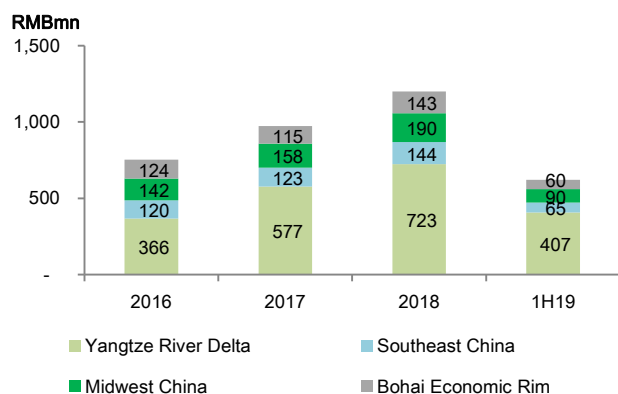
A leading commercial operational service provider in YRD

Powerlong Commercial Management Holdings (PCMH) is a leading commercial operational service provider in China. As of June 30, 2019, the Group had 45 retail commercial properties under management with an aggregate GFA under management of ~ 6.4mn sqm. The Group was contracted to provide commercial operational services (COS) for 59 retail commercial properties with an aggregate contracted GFA of ~7.5 mn sqm.

The Group also provides residential property management services (RPMS) for residential properties, office buildings, and serviced apartments. As of June 30, 2019, PCMH had 44 properties under management under the RPMS segment with an aggregate GFA under management of ~ 10.6mn sqm, and was contracted to manage 69 properties with an aggregate contracted GFA of ~ 17.1 mn sqm.

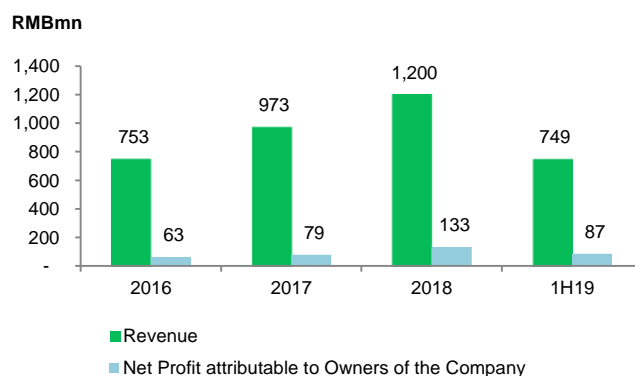
PCMH began to provide commercial operational services for a shopping mall in Fuzhou, Fujian Province, in 2007. In the same year, it began to offer commercial operational services to a shopping street located in Taicang, Jiangsu Province, the first retail commercial property under management located in the Yangtze River Delta (YRD). Since then, the Group expanded its footprint in the YRD and its geographic presence to 34 cities across seven provinces and three municipalities in China as of June 30, 2019. The Group primarily focuses on managing retail commercial properties in Shanghai Municipality and other major cities including, among others, Hangzhou, Xiamen, and Fuzhou. YRD, as a percentage of COS revenue, increased from 50.8% in 2016 to 63.2% in 2018 and 65.4% in 1H19. Driven by the growing contracted GFA in YRD, PCMH's revenue jumped from RMB 753mn in 2016 to RMB 1,200mn in 2018, implying a 26% CAGR during the period; net profit jumped from RMB 63mn in 2016 to RMB 133mn in 2018, indicating a 46% CAGR during the period.

Exhibit 1: PCMH's revenue by region



Source(s): The Company, ABCI Securities

Exhibit 2: PCMH's revenue and net profit growth



Source(s): The Company, ABCI Securities

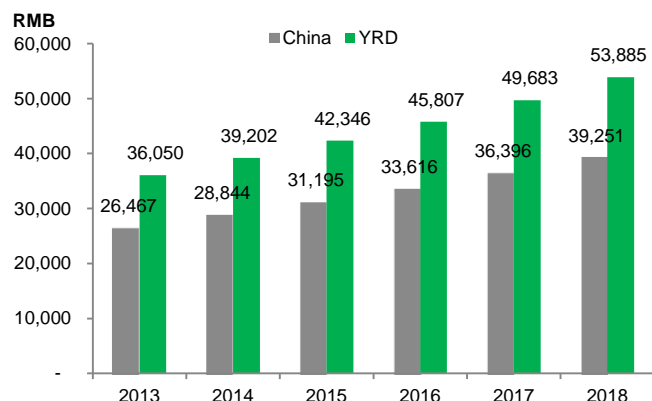
Robust demand for commercial operational services from shopping malls in YRD

According to Frost & Sullivan (F&S), the total number of shopping malls in YRD has increased from ~ 450 in 2013 to ~ 1,040 in 2018, representing a CAGR of 18.2%. In the future, the total number of shopping malls in the YRD is expected to reach ~ 2,180 in 2023, representing a CAGR of 16.0% in 2018-23. Economic growth in the region, accompanied by the rising investment in the commercial property market, has driven the development of regional commercial property market and stimulated demand for commercial operational services.



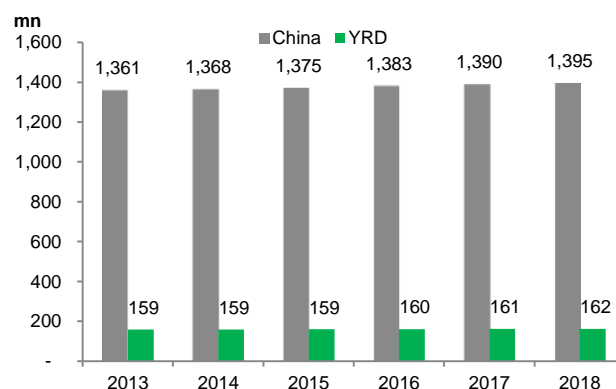
The commercial operational service market is relatively fragmented, with the top five companies accounting for 10.9% and 12.8% of total GFA under management for China and YRD in 2018. PCMH was ranked fourth among the commercial operational service companies both in China & YRD, with market shares of 0.8% and 1.4% in terms of total GFA under management of commercial operational service market in China and YRD.

Exhibit 3: Disposable income in China and YRD



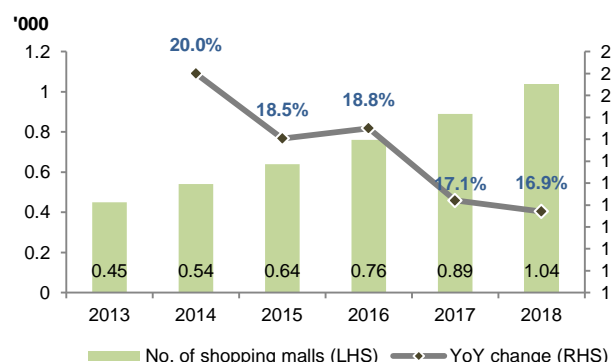
Source(s): F&S, ABCI Securities

Exhibit 4: Total population in China and YRD



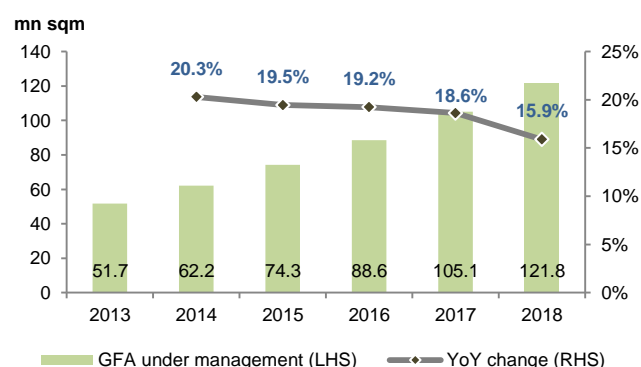
Source(s): F&S, ABCI Securities

Exhibit 5: Total no. of shopping malls in YRD



Source(s): F&S, ABCI Securities

Exhibit 6: Total GFA under management by commercial operational service providers in YRD



Source(s): F&S, ABCI Securities

Exhibit 7: Top five commercial operational service companies by GFA under management in China (2018)

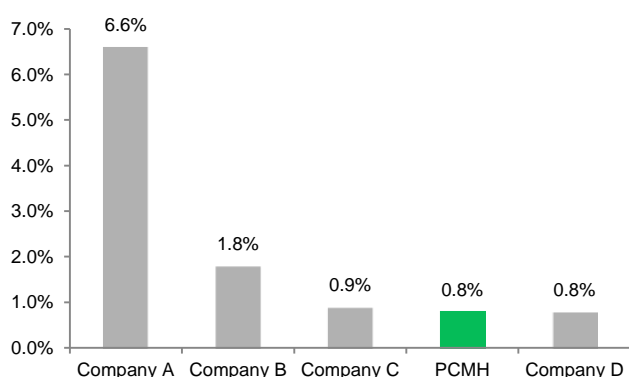
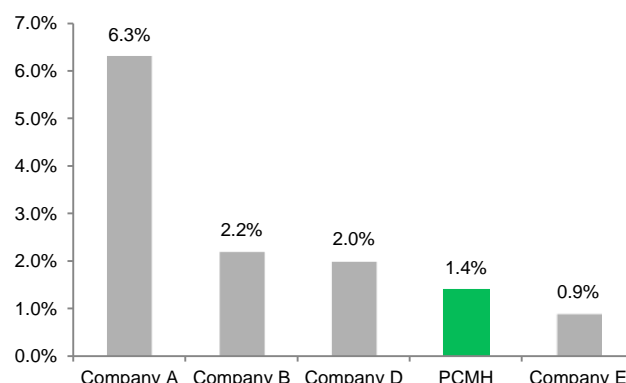


Exhibit 8: Top five commercial operational service companies by GFA under management in YRD (2018)



A diversified revenue mix

PCMH has two principal business lines:

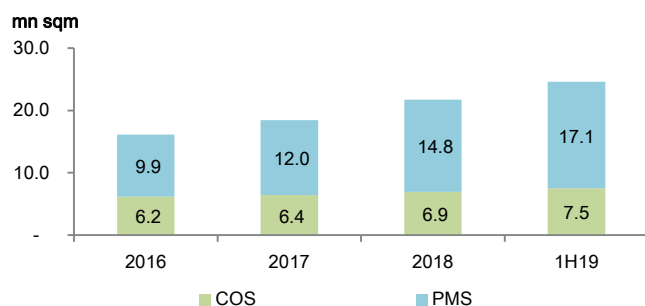
1) Commercial operational services (81.6% of 2018 revenue; 25% CAGR in 2016-18):

- (i) **Market research and positioning, tenant sourcing, and opening preparation services** to property developers or property owners during the preparation stage before the opening of a retail commercial property;
- (ii) **commercial operation and management services** during the operation stage of a retail commercial property to property owners or tenants;
- (iii) **property leasing services** with respect to units located within the shopping streets and shopping malls.

2) Residential property management services (18.4% of 2018 revenue; 33% CAGR in 2016-18):

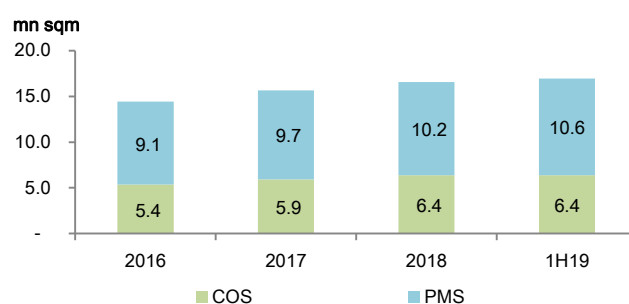
- (i) **Pre-sale management services** to property developers during their pre-sale activities such as cleaning, security and maintenance of pre-sale display units and sales offices.
- (ii) **Property management services** provided to property owners or property owners' associations at the post-delivery stages such as security, cleaning, gardening, as well as repair and maintenance services.
- (iii) **Other value-added services** to property owners, tenants or residents of PCMH's managed properties, such as pre-delivery preparation and trash handling services, common area, advertising space and car park management services.

Exhibit 9: PCMH's contracted GFA



Source(s): The Company, ABCI Securities

Exhibit 10: PCMH's GFA under management



Source(s): The Company, ABCI Securities

Exhibit 11: PCMH's revenue from COS

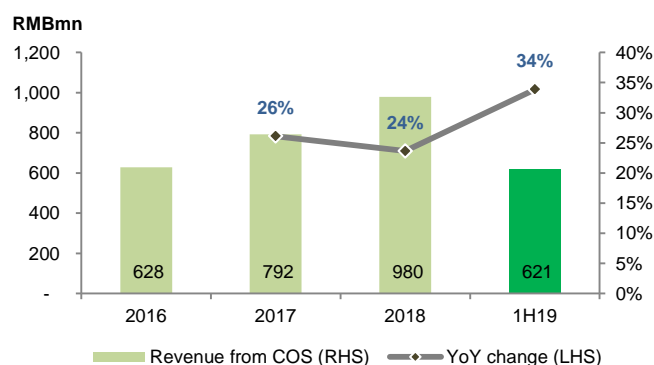


Exhibit 12: PCMH's revenue from RPMS

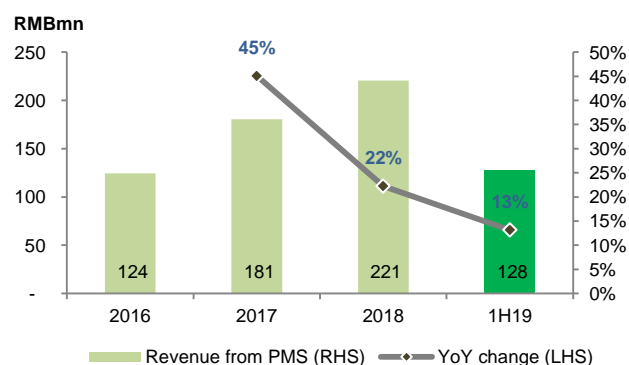
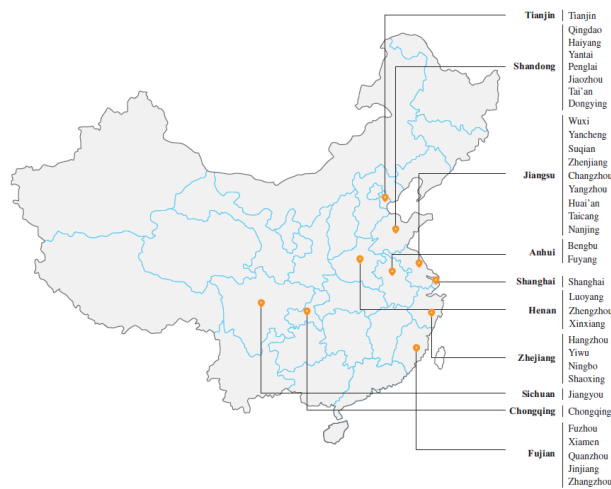
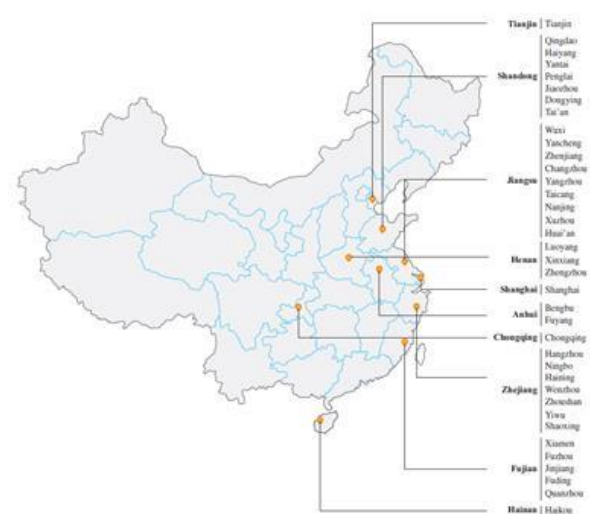


Exhibit 13: Location of retail properties managed or contracted to manage under COS (as of June 2019)


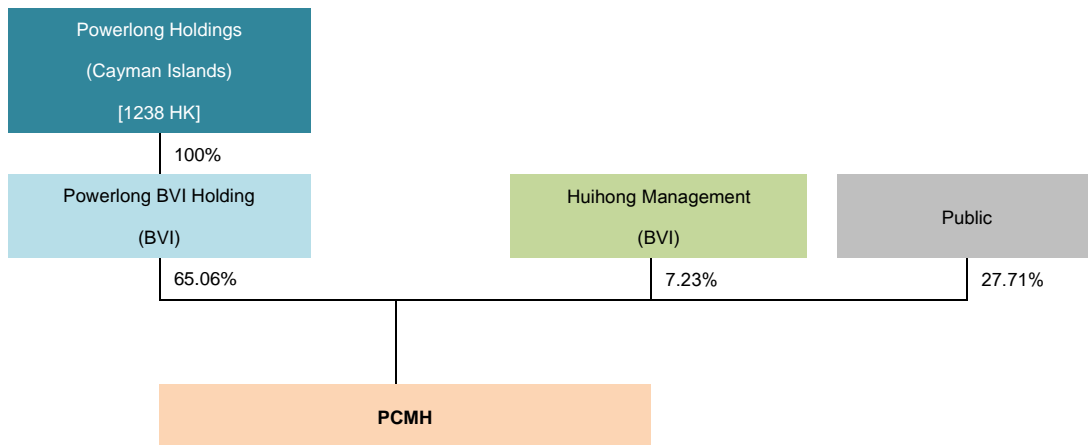
Source(s): The Company, ABCI Securities

Exhibit 14: Location of properties managed or contracted to manage under RPMS (as of June 2019)


Source(s): The Company, ABCI Securities

Shareholding structure

PCMH's parent company, Powerlong Holdings (1238 HK), is a HK-listed China property developer holding a 65.06% stake in PCMH. Huihong Management, a special purpose vehicle to hold shares to be granted to eligible grantees under a share incentive scheme, holds a 7.23% stake in PCMH.

Exhibit 15: Shareholder structure as at the latest practicable date


Source(s): The Company, ABCI Securities



COS: Mall PM projects from the parent group

A wide range of services provided

PCMH's commercial operational services primarily comprises: (i) market research and positioning, tenant sourcing and opening preparation services; (ii) commercial operation and management services; (iii) property leasing services.

1) Market research and positioning, tenant sourcing and opening preparation services

- a) **Market research and positioning services:** the Group conducts market research and analysis, prepares reports on feasibility study, financial projection and marketing and positioning strategies intending to optimize the positioning, tenant and brand mix of the retail commercial properties, and provides advice on the design and construction plans of the retail commercial properties from marketing and positioning perspectives.
- b) **Tenant sourcing and opening preparation services:** the Group helps property owners identify and solicit target tenants and arrange the signing of tenancy agreements. It also supervises the design and construction works, manages the entry of tenants, formulates resource allocation plans, conduct on-site supervision and coordination works, and organize opening ceremonies and promotion events. The group normally charges two times the first month rent as tenant sourcing service fee.

2) Commercial operation and management services

- a) **Retail commercial property management services:**
 - **Security services** – ensure that the properties under management are safe and in good order. Security services include, among others, traffic management, patrolling, access control, visitor handling, video surveillance, car park security, emergency management, and fire safety.
 - **Cleaning services** – general cleaning and hygiene maintenance to common areas including, staircases, railings, hallways, car parks, atriums and gardens.
 - **Repair and maintenance services** – arrange repair and maintenance services for elevator systems, air-conditioning systems, power supply and distribution systems, water supply and drainage systems, fire extinguishing systems, and other facilities and equipment located in common areas of properties.
 - **Tenant coaching** – helps tenants achieve better business performance by helping them monitor and analyze business data and providing training to tenants' staff on store display, building strong consumer relations and advising tenants on store display, store layout, and interior design.
 - **Marketing and promotion services** – hold various promotional activities including holiday sales, public relation and promotion events, aiming to attract traffic to retail commercial properties and increase tenants' sales.
- b) **Tenant management and rent collection services:** provide tenant management and rent collection services to property owners, including handling tenant inquiries and complaints, processing rent payments, ensuring timely payment of rents by tenants, and assisting the property owners in adjusting and optimizing tenant mix. The group charge a fixed percentage of monthly rent for tenant management and rent collection services provide, which varies in the range of 5-30%.



3) Property leasing services

- a) Provide property leasing services for units located within the shopping streets and certain shopping malls. The Group leases shopping street units and shopping malls from property owners and subleases to tenants

PCMH provides market research and positioning, tenant sourcing, and opening preparation services immediately after the signing of commercial operational service contracts with property developers for a retail commercial property until the opening of such retail commercial property. PCMH then provides commercial operation and management services upon the opening of a retail commercial property. Property developers typically engage the Group for 18 to 24 months before the opening of a retail commercial property.

Exhibit 16: COS revenue by type of service

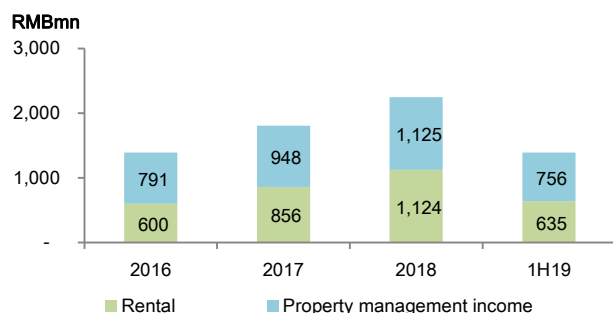


Source(s): The Company, ABCI Securities

Growing shopping mall portfolio of the parent company

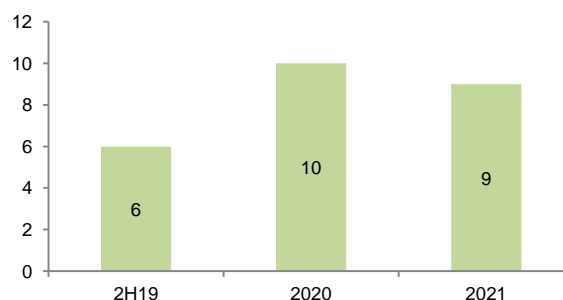
The growth of PCMH's GFA under management for COS has been supported by its parent company, Powerlong Holdings (PH), a leading commercial property developer and operator in China. According to PH's annual report, its income from shopping mall operations (revenue from property investment and property management services) grew from RMB 1,391mn in 2016, to RMB 2,249mn in 2018, implying a CAGR of 27%, and jumped 31%YoY to RMB 1,391mn in 1H19. According to PH, it will target to open 10 and 9 new malls in 2020 and 2021 while aiming to achieve a revenue CAGR no less than 25% for 2019-2021 from its shopping mall operations. Expansion in PH's shopping mall portfolio will undoubtedly benefit PCMH.

Exhibit 17: PH's revenue from investment properties



Source(s): PH, ABCI Securities

Exhibit 18: PH's shopping mall openings



Source(s): PH, ABCI Securities

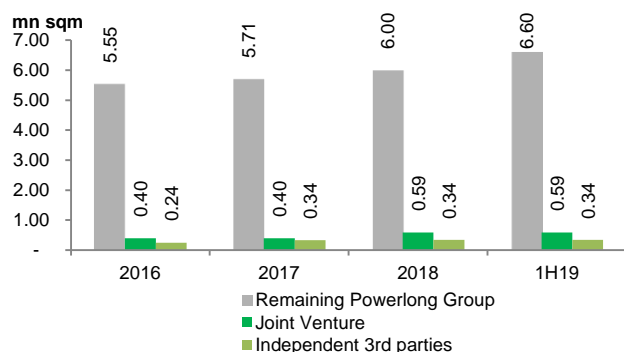
Asset-light model as another driver

PCMH's started to provide COS for retail commercial properties owned/developed by independent third parties in 2014. Revenue derived from commercial operational services for retail commercial properties owned/developed by independent third parties rose from RMB 4.1mn in 2016, to RMB 53.3mn in 2018, implying a CAGR of 263%. As of June 30, 2019, the Group had four retail commercial properties owned/developed by independent third parties under management.

Since June 30, 2019, PCMH has made further strides in securing independent third parties as clients.

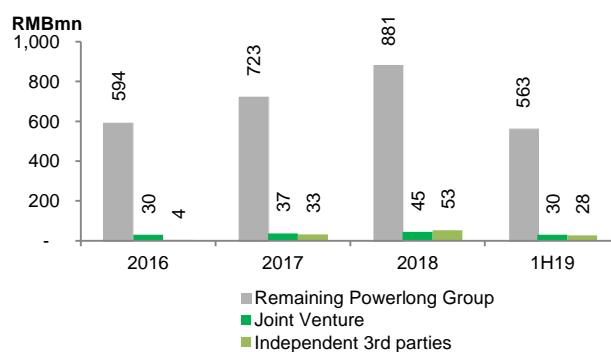
- (1) It has been contracted to provide COS for three retail commercial properties developed or owned by independent third parties. The aggregate contracted GFA is ~183,000 sqm;
- (2) PCMH provides market research, positioning, and other consulting services concerning three retail commercial properties developed and owned by independent third parties with an aggregate contracted GFA of ~458,000 sqm;
- (3) On June 11, 2019, PCMH entered into a memorandum of understanding with an independent third party for a retail commercial property with an estimated contracted GFA of ~84,000 sq.m;
- (4) Since June 30, 2019, PCMH has also entered into seven memoranda of understanding with Independent Third Parties for retail commercial properties with an estimated aggregate contracted GFA of ~ 590,000 sqm;
- (5) PCMH has also entered into a strategic cooperation agreement with an independent rail transit company relating to the long-term cooperation for the retail commercial properties to be developed above or adjacent to the subway stations and depots in Xiamen.

Exhibit 19: Contracted GFA under COS by developer



Source(s): The Company, ABCI Securities

Exhibit 20: COS revenue from projects developed by PH and other sources



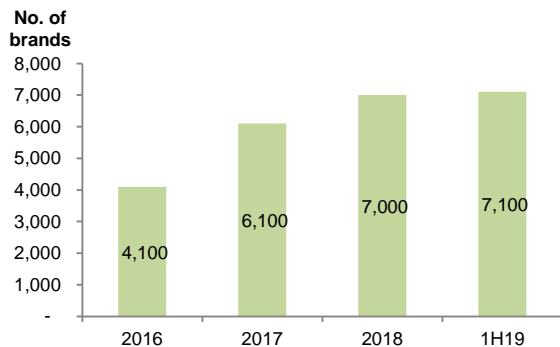
Source(s): The Company, ABCI Securities

Solid tenant management

PCMH has a wide range of tenants, including anchor stores such as movie theaters and supermarkets, other national inline tenants, and local retailers. As of Dec 31, 2016, 2017, and 2018 and June 30, 2019, PCMH's brand bank had over 4,100, 6,100, 7,000, and 7,100 brands, respectively. The Group formulates tailored plans for allocating different types of tenants in a retail commercial property based on its positioning by considering the target consumer, property location and size, and property type. The Group's large brand bank reflects recognition for PCMH's brand and its commitment to quality commercial operational services.

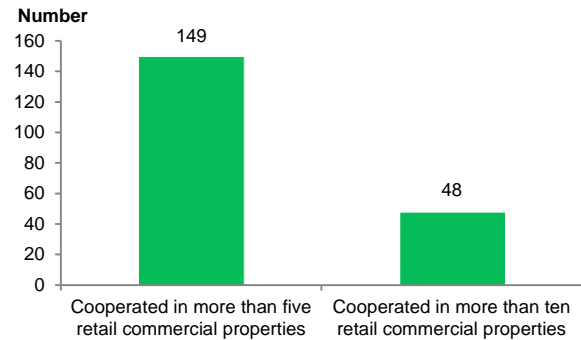


Exhibit 21: PCMH's brand bank



Source(s): PH, ABCI Securities

Exhibit 22: No. of strategic partners that PCMH had cooperated in five or more retail commercial properties (June 2019)



Source(s): PH, ABCI Securities

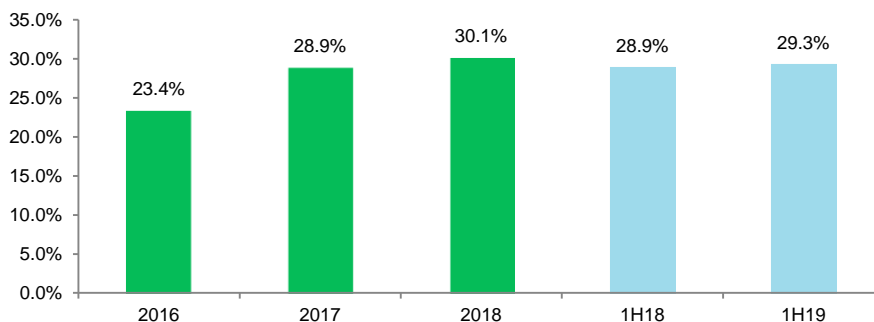
Future expansion strategy

- **Strategic cooperation** with tenants and suppliers to help generate consumer traffic, attract other potential tenants, and instill confidence in retail commercial properties under the group's management.
- **Subleasing:** The Group also plans to lease shopping malls that show significant renovation potential from property owners for repositioning and refurbishment and subsequent sublease.
- **M&As:** PCMH plans to target companies managing five or more retail commercial properties.

Much room for margin growth

Gross margin of COS segment was increasing steadily from 23.4% in 2016 to 30.1% in 2018. We believe there are two key drivers for such improvement: 1) Ability to lift fee rate as sales performance of malls improve; 2) a higher proportion of malls entering the mature stage. We expect gross margin for mature malls (> 3 years of operation) can be as high as 40%, comparable to Aoyuan Healthy Life's (3662 HK) 1H19 gross margin of 39.6% who also provides COS to retail malls.

Exhibit 23: PCMH's gross margin of COS



Source(s): PH, ABCI Securities

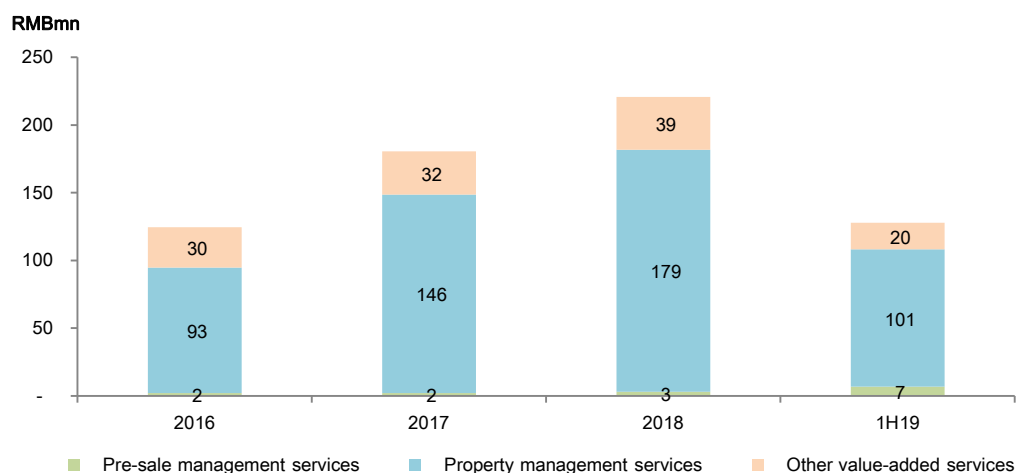


Potential of Residential Property Management Services (RPMS)

PCMH first started to provide RPMS in Xiamen, Fujian Province, in 1993, and have since contracted to manage substantially all of the properties developed by PH. PCMH provides RPMS for residential properties, serviced apartments, and office buildings. Since the commencement of the Group's RPMS in 1993, PCMH had contracted to provide property management services in 37 cities across seven provinces and three municipalities as of June 30, 2019. PCMH's residential property management services comprise:

- a) **Pre-sale management services:** PCMH provides property management services to property developers for their pre-sale activities, such as cleaning, security and maintenance of pre-sale display units and sales offices.
- b) **Property management services:** PCMH provides management services to (i) property developers for unsold properties; and (ii) property owners or owners' associations for properties sold, including:
 - (i) Security services – Daily security services including, among others, traffic management, patrolling, access control, visitor management, video surveillance, car park security, emergency management, and fire safety
 - (ii) Cleaning and gardening services – General cleaning, hygiene maintenance, and gardening services, including pruning, fertilizing, and pest control to the common areas of its managed properties. Such common areas may include, among others, staircases, railings, hallways, basements, and gardens;
 - (iii) Repair and maintenance services – Repair and maintenance services for elevator systems, power supply and distribution systems, water supply and drainage systems, fire extinguishing systems and other facilities and equipment located in common areas of their managed properties
- c) **Other value-added services:** Include pre-delivery preparation and trash handling services, common area, advertising space management services and car park management services provided to property owners, tenants or residents of managed properties.

Exhibit 24: RPMS revenue by service type



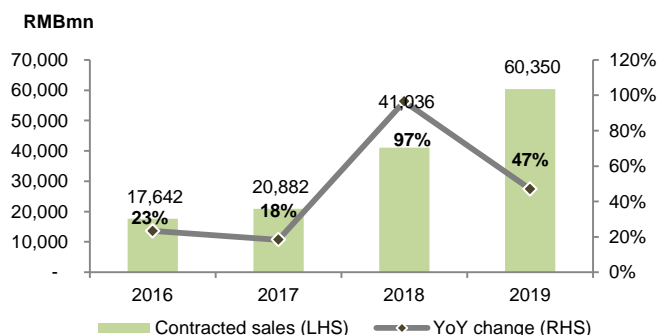
Source(s): The Company, ABCI Securities



Strong growth in parent's contracted sales

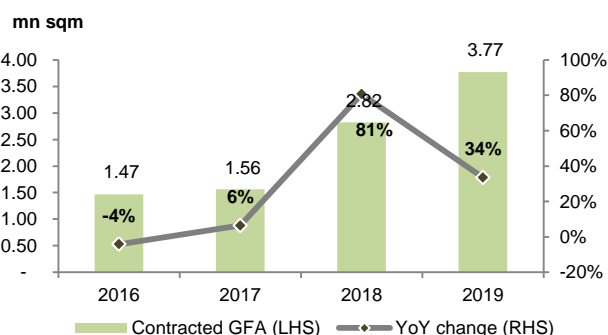
PH's contracted sales jumped 97%YoY and 47%YoY to RMB 41bn and RMB 60.4bn in 2018 and 2019; meanwhile, contracted area rose 81%YoY and 34%YoY to 2.82mn sqm and 3.77mn sqm in the same years. As of June 2019, 96.6% of RPMS revenue from property management services came from PH's property development projects while PH's JV projects account for the rest. Fast-growing contracted sales resulted in a substantial size of undelivered contracted GFA of 6.5mn sqm for RPMS as of June 2019, representing 61% of total GFA under management for RPMS (June 2019: 10.6mn sqm). As of June 2019, PH had a total landbank of 24.4mn sqm, representing 230% of PCMH's GFA under management of residential properties.

Exhibit 25: PH's contracted sales



Source(s): The Company, ABCI Securities

Exhibit 26: PH's contracted GFA

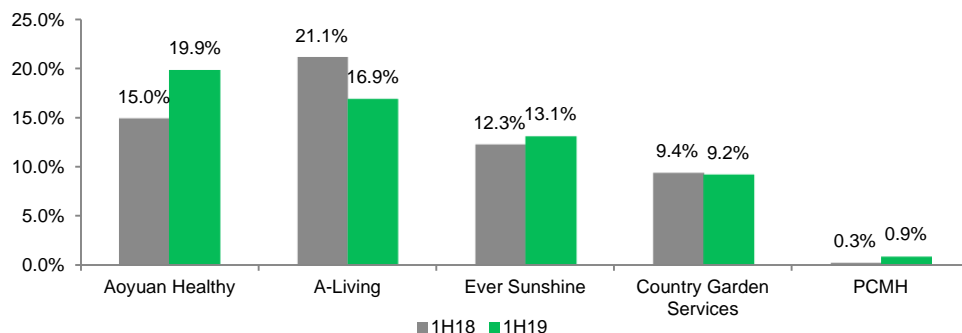


Source(s): The Company, ABCI Securities

Pre-sale management services to thrive

We believe PCMH only provided pre-sale management services to a limited number of projects developed by PH. In 1H19, revenue from pre-sale management services jumped 318% YoY to RMB 6.9mn in 1H19, mainly attributable to the number of properties to which the Group provided presale management services that rose from four as of June 2018 to seven as of June 2019. Given its close relationship with PH, the Group may secure more pre-sale management services business in the future. For comparative purposes, revenue from pre-sale management services accounted for 9.2-19.9% of total revenue on average in 1H19 for small/mid-sized PMCs such as Ever Sunshine (1995 HK), Xinchengyue (1755 HK) and Aoyuan Healthy (3662 HK).

Exhibit 27: Revenue from presales management as a percentage of total revenue



Source(s): Companies, ABCI Securities



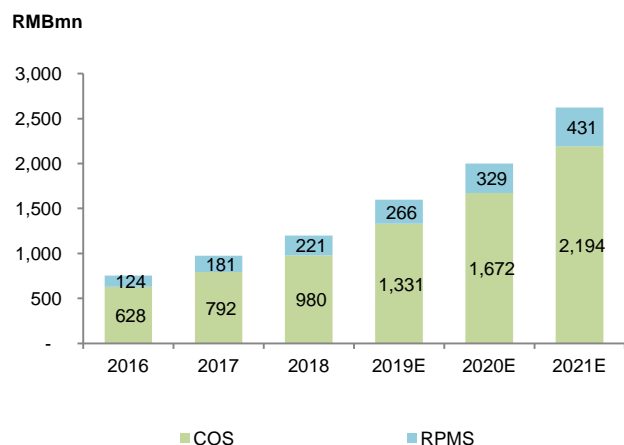
Earnings forecasts

Core profit to expand at 45% CAGR over 2019E-21E

We expect revenue to grow at 28% CAGR in 2019E-21E on expanding GFA under management and a higher fee rate from COS. We forecast GFA under management to grow at a CAGR of 14% and 30% for COS and RPMS during 2019E-21E due to the growing number of third-party malls and rising presales of PH. We believe management fee rate for residential projects in RPMS business would stay similar, but the average fee rate for COS would rise at 13% CAGR during 2019E-21E on improving occupancy and tenants' sales performance from the new malls in the portfolio.

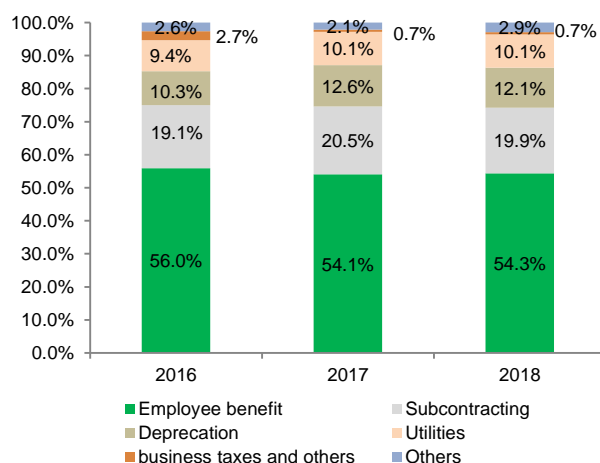
We expect gross margin to increase steadily from 28.6% in 2019E to 31.2% in 2021E due to 1) higher fee rate of COS business and 2) improving margin from RPMS business due to the increasing contribution from pre-sale management services to PH. Net margin would increase from 12.1% in 2019E to 15.5% in 2021E. Based on the growing revenue and improving gross margin, we forecast net profit to rise from RMB 193mn in 2019E to RMB 406mn in 2021E, representing 45% CAGR in 2019E-21E.

Exhibit 28: PCMH's revenue breakdown



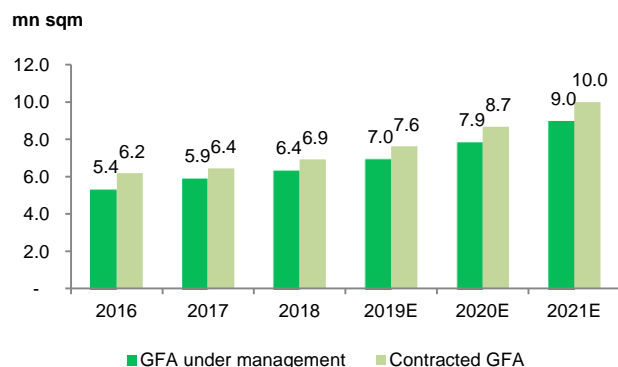
Source(s): The Company, ABCI Securities estimates

Exhibit 29: PCMH's cost of sales breakdown



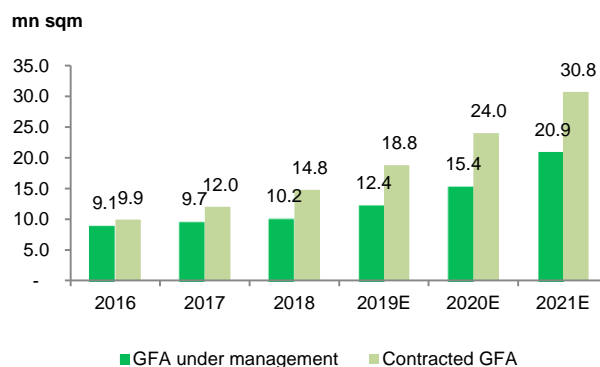
Source(s): The Company, ABCI Securities

Exhibit 30: PCMH's contracted GFA and GFA under management for COS



Source(s): The Company, ABCI Securities estimates

Exhibit 31: PCMH's contracted GFA and GFA under management for RPMS



Source(s): The Company, ABCI Securities estimates

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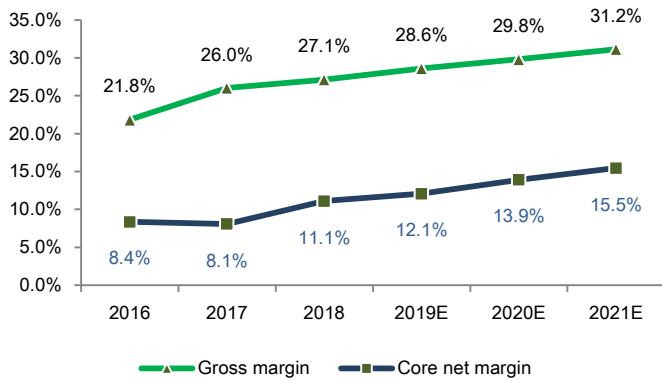
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ABCI SECURITIES COMPANY LIMITED

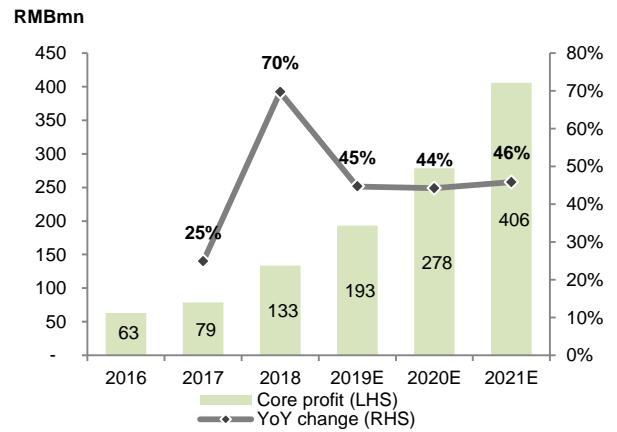
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Exhibit 32: Gross and core net margins

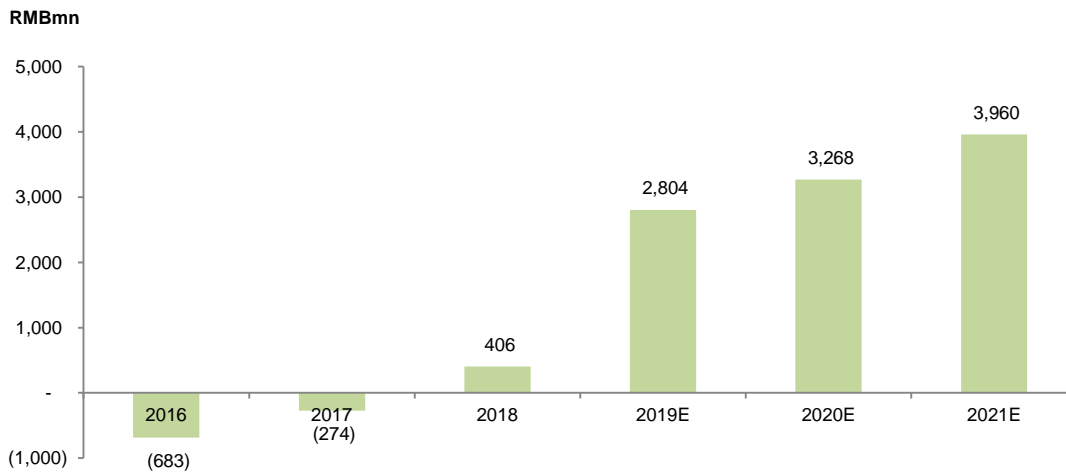
Source(s): The Company, ABCI Securities estimates

Exhibit 33: PCMH's Core profit

Source(s): The Company, ABCI Securities estimates

A net cash company

PCMH has been in a net cash position since 2018. Driven by its healthy level of free cash flow from the business, we expect net cash balance to grow to RMB 3,960mn by 2021E.

Exhibit 34: Net cash balance (end of period)

Source(s): The Company, ABCI Securities estimates

* Net cash= total cash - gross debt



P&L	1H19	1H18	YoY Chg	Balance sheet	June-19	Dec-18	HoH %
	RMBmn	RMBmn	(%)		RMBmn	RMBmn	
Revenue	749	577	29.8	Gross debt	215	634	(66)
Cost of Sales	(551)	(426)	29.3	Cash	135	1,040	(87)
Gross Profit	198	151	31.4	Net debt	80	(406)	(120)
Gross Margin (%)	26.4	26.1	+0.3ppt				
Selling and distribution costs	(17)	(15)	17.3		1H19	1H18	YoY Chg
Administrative expense	(47)	(34)	39.0		RMBmn	RMBmn	
EBIT	134	102	30.8	Total revenue	749	577	29.8
EBIT Margin (%)	17.9	17.7	+0.1ppt	- Market research and positioning, tenant sourcing and opening preparation services	49	29	66.5
				- Commercial operation and management services	459	336	36.4
Other income	9	5	60.8	- Property leasing services	114	99	15.5
Net impairment losses on financial assets	(4)	(2)	90.5				
Other net gains	0	0	na	- Pre-sale management services	6.9	2	318.2
Interest income				- Property management services	101	96	5.5
Finance cost	(19)	(21)	na	- Other value-added services	20	15	28.3
Profit before tax	120	85	40.4	Gross margin	26.4%	26.1%	+0.3ppt
Tax	(33)	(26)	27.4	- COS	29.3%	28.9%	+0.4ppt
Profit after tax	87	60	45.9	- RPMS	12.4%	14.7%	-2.3ppt
Minority Interest	0	0	NA				
Net profit	87	60	45.9				
				Operating statistics	June-19	Dec-18	HoH Chg
				GFA Under management (mn sqm)	16.9	16.6	2.2
				- COS	6.4	6.4	0.0
				- RPMS	10.6	10.2	3.6
				Contracted GFA (mn sqm)	24.6	21.7	13.3
				- COS	7.5	6.9	8.7
				- RPMS	17.1	14.8	15.4

Source(s): The Company, ABCI Securities



Initiate BUY with TP HK\$12.50 based on DCF

DCF valuation based on 10% WACC

The market tends to favor the use of comparative approach in valuating PMCs. However, such method stresses mainly on the short-term earnings aspect and fails to consider the balance sheet position and longer-term growth. A substantial proportion of PCMH's revenue is determined by PM agreement, which generates recurrent income in the long term. As such, we believe DCF valuation would offer a more accurate assessment of the Group's value based on its high cash flow visibility. Our DCF-derived TP for PCMH (with a WACC of 10%; terminal growth of 1%) is HK\$ 12.50, which translates into 25.1x P/E and 3.4x P/B for 2020E.

Exhibit 37: PCMH's DCF valuation sensitivity to changes in WACC (2020E)

Terminal growth	WACC				
	6.0%	8.0%	10.0%	12.0%	14.0%
0%	17.90	14.30	12.20	10.80	9.90
1%	19.40	14.90	12.50	11.00	10.00
2%	21.60	15.80	12.90	11.20	10.10

Variance from the base case	WACC				
	6.0%	8.0%	10.0%	12.0%	14.0%
0%	43%	14%	-2%	-13%	-21%
1%	55%	19%	0%	-12%	-20%
2%	73%	26%	3%	-10%	-19%

Source(s): ABCI Securities estimates

Comparative approach

PCMH's comparable peers are parent-dependent small/mid-sized listed PMCs (with GFA under management <100mn sqm) in China, which include Ever Sunshine (1995 HK), S-Enjoy (1755 HK), Kaisa Prosperity (2168HK) and Aoyuan Healthy Life (AHL, 3662 HK). Our TP implies 25.1x 2020E P/E, which is higher the peer average at 22.5x 2020E P/E based on Bloomberg's consensus forecast. We believe PCMH deserves a premium over its peers given significant number of shopping mall projects, which enable better pricing power as compared to residential projects. Besides, we also argue PCMH has better earnings quality given its gross margin has not be inflated by presales management provided to parent. This business only represents 0.9% of total revenue in 1H19, much lower than peers' range of 9.2-19.9%.



Exhibit 38: Valuation of HK-listed PMCs

PRC Property		Ticker	Mkt Cap HK\$ (bn)	Share Price (HK\$)	Performance			Valuation								
					3M	YTD	2019	P/E			Yield (%)			P/B		
			(HKD bn)	(HK\$)	% Chg	% Chg	% Chg	2018A	2019E*	2020E*	2018A	2019E*	2020E*	2018A	2019E*	2020E*
Large PMC (GFA under management >100mn sqm)																
1	Country Garden Services	6098 HK	85.3	31.1	16	18	112	88.6	49.9	37.5	0.3	0.5	0.6	32.9	15.3	11.8
2	A-Living	3319 HK	48.0	35.3	41	31	161	53.9	37.7	26.7	0.9	1.0	1.5	7.8	7.0	6.0
3	Poly Property Development	6049 HK	35.8	63.8	NA	37	33	94.3	63.4	45.1	0.0	0.4	0.6	48.9	5.0	4.7
4	Greentown Services	2869 HK	29.2	10.4	20	23	44	54.4	48.7	36.6	0.8	0.7	1.0	10.8	9.8	8.0
5	China Overseas Property	2669 HK	19.9	5.95	24	21	116	49.5	38.6	30.6	0.7	0.8	1.0	15.3	13.2	10.0
Small/mid-sized PMC (GFA under management <100mn sqm)																
1	Ever Sunshine	1995 HK	11.9	7.62	57	44	199	85.1	51.3	33.1	0.3	0.6	0.9	11.7	9.8	8.0
2	S-Enjoy	1755 HK	14.2	16.5	59	35	222	84.7	49.5	32.9	0.7	NA	NA	15.1	NA	NA
3	Justbon	2606 HK	8.9	49.0	NA	(1)	34	20.2	18.2	13.7	0.0	1.6	2.2	12.9	3.2	2.7
4	Powerlong CM	9909 HK	6.7	10.7	NA	9.0	3.4	44.9	31.0	21.5	0.0	1.0	1.4	26.0	3.2	2.9
5	Aoyuan Healthy	3662 HK	5.3	7.03	14	20	60	56.2	29.0	18.0	0.3	1.2	2.1	6.3	5.9	5.1
6	Kaisa Prosperity	2168 HK	3.5	24.2	16	15	187	30.2	21.1	15.9	0.7	1.2	1.6	6.3	5.6	4.4
PMC Avg					31	23	107	60.2	39.8	28.3	0.4	0.9	1.3	17.6	7.8	6.3
- Large PMC					25	26	93	68.1	47.6	35.3	0.5	0.7	0.9	23.1	10.1	8.1
- Small/mid-sized PMC					37	20	118	53.6	33.3	22.5	0.3	1.1	1.6	13.1	5.5	4.6

*Bloomberg's consensus forecast

Source(s): Bloomberg, ABCI Securities

Exhibit 39: 1H19 Peer comparison- GFA (Small/mid-sized players, GFA under management < 100mn sqm)

	Ever Sunshine (1995 HK)			Xingchengyue (1755 HK)			Kaisa Prosperity (2168 HK)			Aoyuan Healthy (3662 HK)			PCMH (9909 HK)		
	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	FY18	1H19	HoH chg
GFA comparison															
COS															
GFA under management (mn sqm)										NA	0.53		6.37	6.37	0%
Contracted GFA (mn sqm)										NA	1.60		6.92	7.52	9%
RPMS															
GFA under management (mn sqm)	26.5	40.2	52%	36.3	42.9	18%	24.0	26.9	12%	9.9	12.0	21%	10.2	10.6	4%
- Residential	22.3	32.8	47%				21.6	23.9	11%	NA	NA		NA	NA	
- Non-residential	4.2	7.4	78%				2.4	3.0	24%	NA	NA		NA	NA	
% as total GFA under management															
- Residential	84%	82%	-3%				90%	89%	-1%	NA	NA	NA		NA	NA
- Non-residential	15.8%	18.5%	2.7%				10%	11%	1%	NA	NA	NA		NA	NA
GFA under management (mn sqm)	26.5	40.2	52%	36.3	42.9	18%	24.0	26.9	12%	9.9	12.0	21%	10.2	10.6	4%
- Developed by major shareholders/parent group	13.2	14.6	11%	26.2	30.5	16%	20.7	22.6	9%	9.3	11.1	19%	10.2	10.6	4%
- Third parties	13.3	25.6	93%	10.1	12.4	23%	3.3	4.3	28%	0.6	0.9	53%	-	-	
GFA under management (%)															
- Developed by major shareholders/parent group	50%	36%	-13%	72%	71%	-1%	86%	84%	-2%	94%	92%	-2%	100%	100%	0%
- Third parties	50%	64%	13%	28%	29%	1%	14%	16%	2%	6%	8%	2%	0%	0%	0%
Contracted GFA (mn sqm)	33.4	65.6	96%	67.8	112.2	65%	29.7	32.2	9%	N A	N A		14.8	17.1	15%

Source(s): The Companies , ABCI Securities

Exhibit 40: FY18 Peer comparison- GFA (Small/mid-sized players, GFA under management < 100mn sqm)

	Ever Sunshine (1995 HK)			Xingchengyue (1755 HK)			Kaisa Prosperity (2168 HK)			Aoyuan Healthy (3662 HK)			PCMH (9909 HK)		
	2017	2018	YoY chg	2017	2018	YoY chg	2017	2018	YoY chg	2017	2018	YoY chg	2017	2018	YoY chg
GFA comparison															
COS															
GFA under management (mn sqm)										0.40	0.42	6%	5.94	6.37	7%
Contracted GFA (mn sqm)										1.14	1.30	14%	6.44	6.92	8%
RPMS															
GFA under management (mn sqm)	26.5	40.2	52%	36.3	42.9	18%	24.0	26.9	12%	8.6	10.4	21%	9.7	10.2	5%
- Residential	22.3	32.8	47%				21.6	23.9	11%	NA	NA		NA	NA	
- Non-residential	4.2	7.4	78%				2.4	3.0	24%	NA	NA		NA	NA	
% as total GFA under management															
- Residential	84%	82%	-3%				90%	89%	-1%	NA	NA	NA		NA	NA
- Non-residential	15.8%	18.5%	2.7%				10%	11%	1%	NA	NA	NA		NA	NA
GFA under management (mn sqm)	26.5	40.2	52%	36.3	42.9	18%	24.0	26.9	12%	8.6	10.4	21%	9.7	10.2	5%
- Developed by major shareholders/parent group	13.2	14.6	11%	26.2	30.5	16%	20.7	22.6	9%	8.2	9.9	21%	9.7	10.2	5%
- Third parties	13.3	25.6	93%	10.1	12.4	23%	3.3	4.3	28%	0.4	0.5	24%	-	-	
GFA under management (%)															
- Developed by major shareholders/parent group	50%	36%	-13%	72%	71%	-1%	86%	84%	-2%	95%	95%	0%	100%	100%	0%
- Third parties	50%	64%	13%	28%	29%	1%	14%	16%	2%	5%	5%	0%	0%	0%	0%
Contracted GFA (mn sqm)	33.4	65.6	96%	67.8	112.2	65%	29.7	32.2	9%	N A	N A		12.0	14.8	23%

Source(s): The Companies , ABCI Securities



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Exhibit 41: 1H19 peer comparison by financial metric (small/mid-sized player, GFA under management < 100mn sqm)

	Ever Sunshine (1995 HK)			S-Enjoy (1755 HK)			Kaisa Prosperity (2168 HK)			Aoyuan Healthy (3662 HK)			PCMH (9909 HK)		
	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg
Financials comparison															
Revenue (RMBmn)	439	708	61%	500	856	71%	412	558	35%	267	392	47%	577	749	30%
- RPMS revenue (ex VAS)	300	436	45%	335	398	19%	178	234	31%	141	179	26%	96	101	6%
- VAS revenue	138	271	96%	165	459	179%	235	325	38%	63	109	73%	17	27	56%
- COS revenue										63	104	65%	464	621	34%
% as total revenue															
- RPMS revenue (ex VAS)	68%	62%	-7%	67%	46%	-21%	43%	42%	-1%	53%	46%	-7%	17%	14%	-3%
- VAS revenue	32%	38%	7%	33%	54%	21%	57%	58%	1%	23%	28%	4%	3%	4%	1%
- COS revenue										24%	27%	3%	80%	83%	3%
Gross profit (RMBmn)	126	210	67%	144	250	74%	141	191	36%	97	155	60%	151	198	31%
Gross margin (%)	28.8%	29.7%	0.9%	28.8%	29.2%	0.4%	34.2%	34.3%	0.1%	36.2%	39.6%	3.4%	26.1%	26.4%	0.3%
Gross Margin (%)	28.8%	29.7%	0.9%	28.8%	29.2%	0.4%	34.2%	34.3%	0.1%	36.2%	39.6%	3.4%	26.1%	26.4%	0.3%
- RPMS	23.7%	20.8%	-2.9%	27.7%	28.1%	0.4%	37.2%	34.1%	-3.1%	NA	NA	NA	28.9%#	29.3%#	0.4%
- VAS	39.9%	44.1%	4.2%	30.9%	30.1%	-0.8%	31.9%	34.4%	2.5%	NA	NA	NA	NA	NA	NA
- COS										NA	NA	NA	14.7%	12.4%	-2.3%
Core net profit* (RMBmn)	41	91	120%	55	117	115%	63	92	45%	36	90	152%	60	87	46%
Net margin (%)	9.4%	12.8%	3.4%	10.9%	13.7%	2.8%	15.3%	16.4%	1.1%	13.4%	22.9%	9.6%	10.3%	11.6%	1.3%
	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg
Gross debt (RMBmn)	-	-	NA	-	-	NA	-	-	NA	-	2	NA	388	634	NA
Cash (RMBmn)	438	1,170	167%	633	1,278	102%	115	709	515%	164	200	22%	114	1,040	809%
Net debt (RMBmn)	(438)	(1,170)	167%	(633)	(1,278)	102%	(115)	(709)	515%	(164)	(199)	21%	274	(406)	-248%
Total Equity (RMBmn)	245	903	269%	189	867	359%	305	506	66%	111	126	14%	96	230	139%
Net gearing (%)	-179%	-130%	49%	-335%	-147%	188%	-38%	-140%	-102%	-148%	-157%	-9%	284%	-177%	-461%

* Core profit= Net profit-Deferred tax adjustment- (Other (losses)/gains-net + Other exceptional items) x 0.75; # Included VAS

Source(s): The Companies , ABCI Securities

Exhibit 42: FY18 peer comparison by financial metric (small/mid-sized player, GFA under management < 100mn sqm)

	Ever Sunshine (1995 HK)			S-Enjoy (1755 HK)			Kaisa Prosperity (2168 HK)			Aoyuan Healthy (3662 HK)			PCMH (9909 HK)		
	2017	2018	YoY chg	2017	2018	YoY chg	2017	2018	YoY chg	2017	2018	YoY chg	2017	2018	YoY chg
Financials comparison															
Revenue (RMBmn)	725	1,076	48%	866	1,150	33%	669	896	34%	436	619	42%	973	1,200	23%
- RPMS revenue (ex VAS)	472	667	41%	567	732	29%	268	376	40%	235	306	30%	146	187	27%
- VAS revenue	253	409	62%	299	418	40%	401	520	30%	83	147	78%	34	34	0%
- COS revenue										118	166	40%	792	980	24%
% as total revenue															
- RPMS revenue (ex VAS)	65%	62%	-3%	65%	64%	-2%	40%	42%	2%	54%	49%	-4%	15%	16%	0%
- VAS revenue	35%	38%	3%	35%	36%	2%	60%	58%	-2%	19%	24%	5%	4%	3%	-1%
- COS revenue										27%	27%	0%	81%	82%	0%
Gross profit (RMBmn)	183	309	69%	242	339	40%	204	277	36%	148	209	41%	253	326	29%
Gross margin (%)	25.2%	28.7%	3.5%	28.0%	29.5%	1.5%	30.5%	30.9%	0.4%	34.1%	33.7%	-0.3%	26.0%	27.1%	1.1%
Gross Margin (%)	25.2%	28.7%	3.5%	28.0%	29.5%	1.5%	30.5%	30.9%	0.4%	34.1%	33.7%	-0.3%	26.0%	27.1%	1.1%
- RPMS	18.0%	20.7%	2.7%	25.3%	27.8%	2.5%	31.9%	33.0%	1.1%	NA	NA	NA	13.4%#	14.3%#	
- VAS	38.7%	41.8%	3.1%	33.0%	32.4%	-0.6%	29.6%	29.4%	-0.2%	NA	NA	NA	NA	NA	
- COS										NA	NA	NA	28.9%	30.1%	
Core net profit* (RMBmn)	76	126	65%	73	150	105%	76	106	39%	75	94	26%	79	133	70%
Net margin (%)	10.5%	11.7%	1.2%	8.5%	13.1%	4.6%	11.3%	11.8%	0.5%	17.1%	15.2%	-2.0%	8.1%	11.1%	3.0%
	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg
Gross debt (RMBmn)	-	-	NA	-	-	NA	-	-	NA	-	2	NA	388	634	NA
Cash (RMBmn)	438	1,170	167%	633	1,278	102%	115	709	515%	164	200	22%	114	1,040	809%
Net debt (RMBmn)	(438)	(1,170)	167%	(633)	(1,278)	102%	(115)	(709)	515%	(164)	(199)	21%	274	(406)	-248%
Total Equity (RMBmn)	245	903	269%	189	867	359%	305	506	66%	111	126	14%	96	230	139%
Net gearing (%)	-179%	-130%	49%	-335%	-147%	188%	-38%	-140%	-102%	-148%	-157%	-9%	284%	-177%	-461%

* Core profit= Net profit-Deferred tax adjustment- (Other (losses)/gains-net + Other exceptional items) x 0.75; # Included VAS

Source(s): The Companies , ABCI Securities



Risk factors

- **Unable to renew COS contracts.**

PCMH's COS contracts typically have a term of 10-20 years. However, some of the shopping malls are due to expire by 2021. As of June 30, 2019, of its 45 retail commercial properties in operation, three (Anxi Powerlong Plaza, Qingpu Powerlong Plaza and Tianjin Powerlong Plaza) will have their COS contracts expired by 2021. It is possible that PCMH may not be able to renew those contracts or re-negotiate with less favorable terms. On the other hand, majority of PCMH's RPMS contracts do not have a fixed term.

Exhibit 43: Expiration schedule of PCMH's RPMS contracts for residential properties (June 2019)

	Contracted GFA	
	mn sqm	%
Without fixed terms	16.308	96%
<u>With fixed terms</u>		
Year ending Dec 31, 2019	-	0%
Year ending Dec 31, 2020	0.582	3%
Year ending Dec 31, 2021 and beyond	0.180	1%
Total	17.070	100%

Source(s): The Company, ABCI Securities

- **Low cash collection rate in 1H19 for RPMS business.** The Group's collection rates of retail commercial property management fees remain high at 94.9%, 95.9%, 96.3% and 95.8% for 2016, 2017, 2018 and 1H19, respectively. However, collection rate for property management fee under RPMS was only 83.0%, 85.4%, 81.0% and 69.3% for 2016, 2017, 2018 and 1H19 respectively. Slow cash collection may result in mounting receivables and be subjected to impairment loss if bad debt occurs.
- **Rising labor costs.** As a result of growing headcounts and increasing minimum wages, the staff costs in cost of sales rose from RMB 329mn in 2016 to RMB475mn in 2018, implying a CAGR of 20% during the period. As at June 30 2019, PCMH had 4,842 full-time employees with labor contracts.
- **Adverse impact of social security's reform.** Starting from Jan 2019, the State Tax Administration will replace Ministry of Human Resources and Social Security, to become the authority for the collection of social securities. Market was concerned that labor-intensive sector such as PM services might suffer from higher payment on social securities (if they have not been complying fully with the regulation). Some of PCMH's subsidiaries did not register for housing provident fund and/or fully contribute to certain social insurance and housing provident funds for their employees. Total outstanding amount for the two aforementioned items was ~ RMB 5.2 mn and RMB 2.8 mn as of June 30, 2019. The Group made provisions in the total amount of RMB 0.7mn, RMB 2.2mn, RMB 2.8mn and RMB 2.2mn, respectively, with regard to the potential liabilities arising from non-compliance concerning the social insurance and housing provident fund contributions for 2016, 2017, 2018, and 1H19.

However, the working report of the State Council announced in Mar 2019 provided some relief. First, the local authority will not demand recovery on any historical arrears. Besides, the share of enterprise contributions to urban workers' basic aged-care insurance will be lowered from 20% to 16% starting on May 1, 2019. This should substantially reduce the pressure on social security payments for the PMC sector.



- **Substantial amount of related-party transactions.** Revenue from related parties was RMB218mn in 2018, representing 18% of total revenue. However, the percentage of revenue from parent group has been declining for the past few years from 34.6% of total revenue in 2016 to 21.3% in 2017, 18.1% in 2018 and 14.0% in 1H19.

Exhibit 44: Related-party transactions

(RMBmn)	2016	2017	2018	1H19
Provision of services	261	207	218	105
YoY change		-21%	5%	-4%
As % of total revenue	34.6%	21.3%	18.1%	14.0%
Interest income	65	52	2	-
YoY change		-20%	-96%	NA

Source(s): The Company, ABCI Securities

- **Lack of M&A experience.** PCMH has not engaged in any major acquisitions over the last three years. With limited experience in M&A, GFA growth from third parties may slow as the PM market turns mature. The Group may lose market share to players with a more proactive M&A stance.
- **Uncertain development of China's coronavirus outbreak.** According to news widely reported by media, some shopping mall operators such as CR Land (1109) and Future Land (1030) have waived rental and management fee to support retail tenants amid the industry-wide hit from the coronavirus outbreak. Powerlong Group also announced that they would halve rents for the first nine days (from 25 Jan to 2 Feb 2020) of the Lunar New Year. We assume a temporary rent waiver for tenants in PCMH's malls in 1Q2020 but the billing for management fee would continue. However, if the coronavirus outbreak shows no sign of easing, PCMH may need to offer management fee discount.



Financial statements

Consolidated income statement (2016A-2021E)

FY Ended Dec 31 (RMB mn)	2016A	2017A	2018A	2019E	2020E	2021E
Revenue	753	973	1,200	1,597	2,001	2,625
Cost of services	(588)	(720)	(875)	(1,140)	(1,404)	(1,807)
Gross Profit	164	253	326	457	597	818
Selling and marketing expenses	(11)	(19)	(31)	(50)	(64)	(83)
Administrative expenses	(54)	(94)	(80)	(111)	(138)	(171)
EBIT	100	141	214	296	395	565
Other income	9	11	14	14	14	14
Finance income	66	57	11	10	17	19
Finance expenses	(84)	(89)	(55)	(51)	(40)	(37)
Net impairment losses	(3)	(3)	(3)	(4)	(4)	(5)
Other (losses)/gains-net	(1)	(2)	1	(35)	-	-
Profit before tax	88	114	183	231	381	556
Tax	(25)	(36)	(50)	(62)	(103)	(150)
Profit after tax	63	79	133	169	278	406
Minority interest	-	-	-	-	-	-
Net profit	63	79	133	169	278	406
Less: exceptional items	0	0	0	24	0	0
Core profit*	63	79	133	193	278	406
Growth %						
Revenue		29.3%	23.4%	33.1%	25.3%	31.2%
Gross Profit		54.1%	28.6%	40.4%	30.5%	37.1%
EBIT		40.4%	52.4%	38.4%	33.2%	43.2%
Core profit		24.9%	69.7%	44.7%	44.2%	45.8%
Margin %						
Gross margin	21.8%	26.0%	27.1%	28.6%	29.8%	31.2%
EBIT margin	13.3%	14.4%	17.8%	18.6%	19.7%	21.5%
Core Net margin	8.4%	8.1%	11.1%	12.1%	13.9%	15.5%
Revenue breakdown						
Commercial operational services	628	792	980	1,331	1,672	2,194
Property management services	124	181	221	266	329	431
Total	753	973	1,200	1,597	2,001	2,625
Key assumptions						
Contracted GFA (mn sqm)	16.1	18.4	21.7	26.4	32.7	40.7
- COS	6.2	6.4	6.9	7.6	8.7	10.0
- RPMS	9.9	12.0	14.8	18.8	24.0	30.8
GFA under management (mn sqm)	14.4	15.7	16.6	19.4	23.3	29.9
- COS	5.4	5.9	6.4	7.0	7.9	9.0
- RPMS	9.1	9.7	10.2	12.4	15.4	20.9

Source(s): The Company, ABCI Securities estimates

* Excluding listing expenses



Consolidated balance sheet (2016A-2021E)

As of Dec 31 (RMB mn)	2016A	2017A	2018A	2019E	2020E	2021E
Current assets	1,196	941	1,458	3,296	3,764	4,370
Bank balances and cash	152	113	553	2,584	3,049	3,641
Restricted cash	62	2	487	487	487	487
Prepayments and other receivables	920	733	334	140	144	157
Operating lease and trade receivables	62	92	82	82	82	82
Income tax recoverable	1	2	3	3	3	3
Other current assets	0	0	0	0	0	0
Non-current assets	768	807	719	347	284	185
Property, plant and equipment	165	183	173	162	131	71
Investment properties	227	233	156	128	96	57
Deferred tax assets	43	58	56	56	56	56
Other non-current assets	333	333	334	0	0	0
Total Assets	1,964	1,748	2,178	3,642	4,048	4,554
Current Liabilities	1,502	1,202	1,597	1,409	1,619	1,842
Advances from leasees	18	17	30	30	30	30
Contracted and lease liabilities	166	292	339	339	339	339
Trade payables	549	596	648	827	1,037	1,360
Borrowings	741	256	526	159	159	59
Other current liabilities	28	40	54	54	54	54
Non-current liabilities	444	450	351	351	351	351
Bank and other borrowings	156	132	108	108	108	108
Lease liabilities	281	312	236	236	236	236
Deferred Tax Liabilities	7	7	7	7	7	7
Total Liabilities	1,946	1,652	1,948	1,759	1,970	2,192
Net Assets	18	96	230	1,883	2,078	2,362
Shareholders' Equity	18	96	230	1,883	2,078	2,362
Minority Interest	0	0	0	0	0	0
Total Equity	18	96	230	1,883	2,078	2,362
Key ratio						
Gross debt (RMB mn)	897	388	634	267	267	167
Net debt/ (cash) (RMB mn)	683	274	(406)	(2,804)	(3,268)	(3,960)
Net gearing (%)	3843%	284%	-177%	-149%	-157%	-168%

Source(s): The Company, ABCI Securities estimates



Consolidated cash flow statement (2016A-2021E)

As of Dec 31 (RMB mn)	2016A	2017A	2018A	2019E	2020E	2021E
EBITDA	163	235	323	435	558	764
Change in Working Capital	129	128	68	170	190	290
Tax payment	(11)	(39)	(35)	(62)	(103)	(150)
Operating Cash flow	281	324	356	543	645	904
Purchase of PP&E	(3)	(3)	(3)	(100)	(100)	(100)
Purchase of intangible assets	-	-	-	-	-	-
Restricted cash for bank borrowing	(19)	44	(485)	-	-	-
Cash advance to related parties	(813)	(871)	(1,481)	-	-	-
Repayment of related parties	1,247	1,066	1,935	202	17	19
Others	66	54	2	344	17	19
Investing Cash flow	478	290	(31)	446	(67)	(62)
Repayments of borrowings	(252)	(789)	(271)	(367)	0	(100)
Interest received	(81)	(76)	(55)	(51)	(40)	(37)
Equity raised	0	0	0	1542	0	0
Payment to shareholders	0	0	0	(58)	(83)	(122)
Others	(575)	(67)	(75)	(24)	10	9
Financing Cash flow	(743)	(652)	116	1042	(113)	(250)
Net cash inflow/ (outflow)	17	(39)	441	2031	464	592
Cash- beginning	134	152	113	553	2,584	3,049
Cash- year-end	152	113	553	2,584	3,049	3,641

Source(s): The Company, ABCI Securities estimates

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate (10%)
Hold	- Market return (-10%) \leq Stock return $<$ Market return rate (10%)
Sell	Stock return $<$ - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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