

Powerlong Commercial Management (PCM)

Impressive contracted GFA growth

- FY19 core profit rose 56%YoY to RMB 208mn
- Parent developer plans to open 11 malls in 2020 and 16 malls in 2021
- PCM secured five third-party shopping contracts in FY19
- Parent developer offers a 50% waiver on rent from CNY to end-Mar, while PCM only allows deferred payment on management fee
- Maintain **BUY** with revised TP of HK\$13.40

Better-than-expected contracted GFA growth. FY19 core profit rose 56%YoY to RMB 208mn, exceeding our forecast by 8%, since GFA growth grew faster than expected. Revenue rose 35%YoY to RMB 1,620mn, as GFA under management rose 9.5% YoY to 7.0mn sqm for shopping malls and 11.5% YoY to 11.5mn sqm for residential property management. Project pipeline is accelerating - contracted GFA, which included undelivered projects, jumped 28% YoY to 8.9mn sqm for shopping malls and 32% YoY to 19.5mn sqm for residential property management. Parent developer plans to open 11 malls in 2020 and 16 malls in 2021; PCM's contracted GFA would grow further when actual management contracts for some of these malls are established.

PCM increased its effort in third-party projects. Third-party shopping malls revenue increased 17% YoY to RMB 62.4mn in FY19; five more external contracts were secured on top of four third-party malls in operation. Leveraging PCM's brand banks and business relationship with major retailers, average occupancy rose 5.9ppt YoY to 89.4% while retail sales per sqm improved 8% YoY to RMB 646/sqm/mth. For residential management, PCM secured third-party residential projects for the first time in 2019 and attained five projects with an aggregate GFA of 0.71mn sqm. For 2020, PCM expects its residential GFA under management to expand by 4.51mn sqm in 2020 upon delivery, implying a 39%YoY growth.

Gross margin dropped 0.7ppt YoY to 26.4% due to a change in accounting policy for carpark revenue recognition. Gross margin for commercial operational services (COS) would have increased 2.0ppt YoY to 32.1% if following the old recognition system.

Manageable impacts from COVID-19. According to the management, its parent developer offers a 50% waiver on rent from CNY to end-Mar, while PCM allows certain retailers to defer management fee payment. Carpark revenue in Feb took the hardest hit and dropped 80% compared to normal monthly average. Given the management fee only represented a small portion of retailers' operating expenses, downside risk on fee cuts is manageable in our view.

Maintain BUY with revised TP at HK\$13.40. Factoring in a faster-than-expected contracted GFA growth, we raise our DCF-based TP to HK\$13.40 (from HK\$12.50). However, we lower our 2020E and 2021E core profit forecast by 3.2% and 2.5% respectively as we lower our management fee assumption to remain prudent on COVID-19 impacts. Maintain **BUY**.

Risk factors: 1) Unable to renew COS contracts; 2) Lack of M&A experience; 3) Uncertain development of China's coronavirus epidemic.

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	1,200	1,620	1,903	2,539	3,281
Chg (% YoY)	23.4	35.0	17.4	33.4	29.2
Core net profit (RMB mn)*	133	208	265	390	542
Chg (% YoY)	69.7	56.0	27.2	47.4	38.9
Core EPS (RMB)	0.21	0.33	0.43	0.63	0.87
Chg (% YoY)	69.7	56.0	27.2	47.4	38.9
BVPS (RMB)	0.37	2.55	2.75	3.14	3.72
Chg (% YoY)	138.6	590.3	8.0	14.0	18.5
Core P/E (x)	47.3	30.3	23.9	16.2	11.6
P/B (x)	27.4	4.0	3.7	3.2	2.7
ROE (%)	81.7	19.7	16.0	21.3	25.4
ROA (%)	6.8	6.8	8.1	10.4	12.2
DPS(HK\$)	-	0.20	0.22	0.24	0.29
Yield (%)	-	1.77	1.95	2.15	2.57
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Note: RMB /HKD: 1.12

*Excluding listing expenses

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 11, 2020

Rating: **BUY**

TP: HK\$ 13.40

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Share price (HK\$)	11.28
Est. share price return	18.8%
Est. dividend yield	2.0%
Est. total return	20.8%
Previous Rating & TP	BUY; HK\$12.50
Previous Report Date	14 Feb 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	12.04/9.05
Issued shares (mn)	623
Market cap (HK\$ mn)	7,027
Avg daily turnover since IPO (HK\$ mn)	41.32

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

Source(s): Bloomberg, ABCI Securities

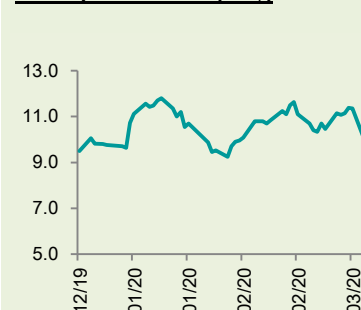
Share Performance (%)

	Absolute	Relative*
1-mth	3.1	11.4
3-mth	NA	NA
6-mth	NA	NA

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance (HK\$)



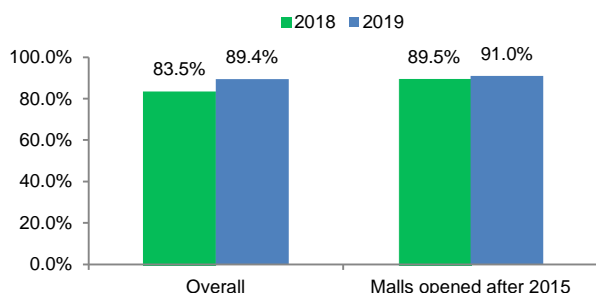
Source(s): Bloomberg, ABCI Securities

**農銀國際**

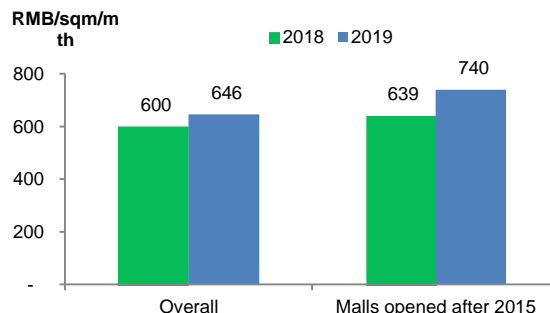
ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

Powerlong Commercial Management Holdings Limited (9909 HK, BUY)
China's Property Management Sector
Mar 11, 2020

Exhibit 1: Occupancy of PCM's shopping malls

Source(s): The Company, ABCI Securities

Exhibit 2: Retail sales/sqm/month of PCM's shopping malls

Source(s): The Company, ABCI Securities

Exhibit 3: PCM's FY19 financial performance

P&L	FY19	FY18	YoY Chg
	RMBmn	RMBmn	(%)
Revenue	1,620	1,200	35.0
Cost of Sales	(1,192)	(875)	36.3
Gross Profit	428	326	31.5
Gross Margin (%)	26.4	27.1	(0.7ppt)
Selling and distribution costs	(42)	(31)	33.4
Administrative expense	(117)	(80)	45.9
EBIT	269	214	25.8
EBIT Margin (%)	16.6	17.8	(1.2ppt)
Other income	17	14	22.7
Net impairment losses on financial assets	(7)	(3)	159.8
Other gains	0	1	(58.6)
Interest income	8	11	(58.6)
Finance cost	(40)	(55)	(31.6)
Profit before tax	247	183	35.2
Tax	(69)	(50)	38.7
Profit after tax	179	133	34.0
Minority Interest	0	0	NA
Net profit	179	133	34.0
Core profit	208	133	56.0
Core net margin	12.8%	11.1%	+1.7ppt

Source(s): The Company, ABCI Securities

Balance sheet	Dec-19	Dec-18	YoY Chg
	RMBmn	RMBmn	
Gross debt	-	634	(100)
Cash	2,616	1,040	152
Net Cash	2,616	406	544

	FY19	FY18	YoY Chg
	RMBmn	RMBmn	
Total revenue	1,620	1,200	35.0
- Market research and positioning, tenant sourcing and opening preparation services	143	52	174.3
- Commercial operation and management services	987	719	37.1
- Property leasing services	205	208	(1.3)
- Pre-sale management services	13	3	334.6
- Property management services	222	179	24.3
- Other value-added services	50	39	28.4
Gross margin	26.4%	27.1%	-0.7%
- Commercial operational services (COS)	29.3%	30.1%	-0.8%
- Residential Property management services (RPMS)	12.9%	14.3%	-1.4%

Operating statistics	Dec-19	Dec-18	YoY Chg
GFA Under management (mn sqm)	18.5	16.6	11.5
- COS	7.0	6.4	9.5
- RPMS	11.5	10.2	12.7
Contracted GFA (mn sqm)	28.4	21.7	30.8
- COS	8.9	6.9	28.2
- RPMS	19.5	14.8	32.0

Exhibit 4: Changes in TP and profit forecasts

	New	Old	Change	Reason
TP (HK\$)	13.40	12.50	7.2%	- Factored in faster contracted GFA growth, which should translate into faster GFA under management growth in 2022; - Assuming faster management fee rate growth in 2022
Core profit (RMBmn)				
- 2020E	265	273	-3.2%	Expect lower management fee rate upon contract renewal during the year due to COVID-19
- 2021E	390	400	-2.5%	Full year impact of lower management fee rate for contracts negotiated in 2020

Source(s): Company, ABCI Securities estimates



Financial statements

Consolidated income statement (2018A-2022E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	1,200	1,620	1,903	2,539	3,281
Cost of services	(875)	(1,192)	(1,381)	(1,812)	(2,305)
Gross Profit	326	428	522	727	976
Selling and marketing expenses	(31)	(42)	(48)	(60)	(77)
Administrative expenses	(80)	(88)	(101)	(121)	(151)
EBIT	214	299	373	546	748
Other income	14	17	17	17	17
Finance income	11	8	8	10	12
Finance expenses	(55)	(40)	(28)	(28)	(28)
Net impairment losses	(3)	(7)	(8)	(11)	(6)
Other (losses)/gains-net	1	(29)	-	-	-
Profit before tax	183	247	362	534	742
Tax	(50)	(69)	(98)	(144)	(200)
Profit after tax	133	179	265	390	542
Minority interest	-	-	-	-	-
Net profit	133	179	265	390	542
Less: exceptional items	0	29	0	0	0
Core profit*	133	208	265	390	542
Growth %					
Revenue	23.4%	35.0%	17.4%	33.4%	29.2%
Gross Profit	28.6%	31.5%	21.9%	39.2%	34.2%
EBIT	52.4%	39.5%	25.0%	46.3%	36.9%
Core profit	69.7%	56.0%	27.2%	47.4%	38.9%
Margin %					
Gross margin	27.1%	26.4%	27.4%	28.6%	29.7%
EBIT margin	17.8%	18.4%	19.6%	21.5%	22.8%
Core Net margin	11.1%	12.8%	13.9%	15.4%	16.5%
Revenue breakdown					
Commercial operational services	980	1,335	1,550	2,044	2,585
Property management services	221	285	353	495	696
Total	1,200	1,620	1,903	2,539	3,281
Key assumptions					
Contracted GFA (mn sqm)	21.7	28.4	35.6	44.9	56.7
- COS	6.9	8.9	9.9	11.2	12.6
- RPMS	14.8	19.5	25.7	33.7	44.1
GFA under management (mn sqm)	16.6	18.5	22.9	31.1	40.3
- COS	6.4	7.0	7.7	8.8	9.8
- RPMS	10.2	11.5	15.2	22.3	30.5

Source(s): The Company, ABCI Securities estimates

* Excluding listing expenses



Consolidated balance sheet (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	1,458	2,824	3,208	3,794	4,564
Bank balances and cash	553	2,616	2,986	3,539	4,271
Restricted cash	487	0	0	0	0
Prepayments and other receivables	334	91	106	139	177
Operating lease and trade receivables	82	114	114	114	114
Income tax recoverable	3	3	3	3	3
Other current assets	0	0	0	0	0
Non-current assets	719	267	268	265	258
Property, plant and equipment	173	7	12	15	17
Investment properties	156	207	202	196	188
Deferred tax assets	56	48	48	48	48
Other non-current assets	334	5	5	5	5
Total Assets	2,178	3,091	3,476	4,058	4,822
Current Liabilities	1,597	1,313	1,570	1,914	2,317
Advances from leasees	30	27	27	27	27
Contracted and lease liabilities	339	489	489	489	489
Trade payables	648	763	1,020	1,363	1,766
Borrowings	526	0	0	0	0
Other current liabilities	54	34	34	34	34
Non-current liabilities	351	190	190	190	190
Bank and other borrowings	108	0	0	0	0
Lease liabilities	236	190	190	190	190
Deferred Tax Liabilities	7	0	0	0	0
Total Liabilities	1,948	1,504	1,761	2,104	2,507
Net Assets	230	1,587	1,715	1,954	2,315
Shareholders' Equity	230	1,587	1,715	1,954	2,315
Minority Interest	0	0	0	0	0
Total Equity	230	1,587	1,715	1,954	2,315
Key ratio					
Gross debt (RMB mn)	634	-	-	-	-
Net debt/ (cash) (RMB mn)	(406)	(2,616)	(2,986)	(3,539)	(4,271)
Net gearing (%)	-177%	-165%	-174%	-181%	-184%

Source(s): The Company, ABCI Securities estimates



Consolidated cash flow statement (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
EBITDA	323	404	383	559	764
Change in Working Capital	68	74	242	310	364
Tax payment	(35)	(69)	(98)	(144)	(200)
Operating Cash flow	356	410	528	725	928
Purchase of PP&E	(3)	(10)	(10)	(10)	(10)
Purchase of intangible assets	-	-	-	-	-
Restricted cash for bank borrowing	(485)	-	-	-	-
Cash advance to related parties	(1,481)	-	-	-	-
Repayment of related parties	1,935	202	-	-	-
Others	2	341	8	10	12
Investing Cash flow	(31)	533	(2)	(0)	2
Repayments of borrowings	(271)	(634)	0	0	0
Interest paid	(55)	(40)	(28)	(28)	(28)
Equity raised	0	1389	0	0	0
Payment to shareholders	0	(112)	(137)	(151)	(181)
Others	(75)	516	9	7	11
Financing Cash flow	116	1120	(156)	(172)	(198)
Net cash inflow/ (outflow)	441	2063	370	553	732
Cash- beginning	113	553	2,616	2,986	3,539
Cash- year-end	553	2,616	2,986	3,539	4,271

Source(s): The Company, ABCI Securities estimates

Disclosures

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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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