



# Powerlong Commercial Management (PCM)

## Significant margin improvement

- 1H20 net profit rose 66%YoY to RMB 145mn driven by 16% YoY revenue growth and significant SG&A cost savings
- Gross margin increased 2.9ppt YoY to 29.3%, driven by fast-growing CVAS business from residential property management services (RPMS)
- Mall occupancy went down 2.3ppt YoY to 87.1% in 1H20, but July's traffic and retail sales resumed to ~90% of normal levels
- Maintain **BUY** with revised TP of HK\$ 28.00 based on DCF

**Impressive cost control.** PCM's revenue rose 16% YoY to RMB 869mn in 1H20, driven by 13% YoY growth in commercial operational services (COS) and 32%YoY growth in RPMS. Net profit soared 66% YoY to RMB 145mn as SG&A expenses were down 13% YoY in 1H20. Due to COVID-19 outbreak in early 2020, PCM slashed promotional activities when shops were shut down. Mall occupancy fell 2.3ppt YoY to 87.1% in 1H20. Recovery was swift, however –in July, traffic and retail sales rebounded back to ~90% of those in July 2019. GFA under management in 1H20 rose 9.5% YoY to 7.0mn sqm for shopping malls and 10.2% YoY to 11.6mn sqm for residential property management. Project pipeline is accelerating - contracted GFA, which included undelivered projects, jumped 32% YoY to 9.9mn sqm for shopping malls and 17% YoY to 19.9mn sqm for residential property management. Revenue from third-party projects increased 89% YoY to RMB 53mn, accounting for 6.1% of total revenue.

**Fast-growing CVAS business drives margin of RPMS.** Overall gross margin increased 2.9ppt YoY to 29.3%, driven by fast-growing Other VAS (CVAS) from RPMS. In particular, revenue from CVAS, which normally entails a higher margin, rose 117% YoY to RMB 43mn. Revenue from presales management also increased 34%YoY to RMB 9.2mn, driven by increasing presales activities of parent group. Despite significant elevation in gross profit margin from 12.4% in 1H19 to 21.9% to 1H20, we believe room for improvement still exists given average gross margin among peers was ~30% in 2019.

**Acquisition of Zhejiang Xinghui Commercial management (Xinghui) helps penetrate into the market of shopping street management.** In July, PCM acquired a 60% stake in Xinghui at RMB 40.55mn, or 10x 2020 P/E. Xinghui, who specializes in shopping street management, has a GFA under management of 0.89mn sqm. Xinghui was ranked first in Zhejiang among the asset-light commercial management companies by GFA.

**Maintain BUY with revised TP at HK\$ 28.00.** Factoring in the better-than-expected cost savings and CVAS revenue growth, we raise our 2020E and 2021E core profit forecasts by 22.8% and 27.4%. Our DCF-based TP (WACC: 10%; terminal growth: 1%, unchanged) to HK\$ 28.00 (from HK\$ 13.40). Maintain **BUY**.

**Risk factors:** 1) Fail to renew COS contracts; 2) Lack of M&A experience; 3) Uncertain development of global coronavirus pandemic.

### Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	1,200	1,620	1,969	2,670	3,450
Chg (% YoY)	23.4	35.0	21.5	35.5	29.2
Core net profit (RMB mn)*	133	208	326	497	686
Chg (% YoY)	69.7	56.0	56.5	52.6	38.0
Core EPS (RMB)	0.21	0.33	0.52	0.80	1.10
Chg (% YoY)	69.7	56.0	56.5	52.6	38.0
BVPS (RMB)	0.37	2.55	2.85	3.41	4.22
Chg (% YoY)	138.6	590.3	11.9	19.5	23.8
Core P/E (x)	95.2	61.0	39.0	25.5	18.5
P/B (x)	55.2	8.0	7.1	6.0	4.8
ROE (%)	81.7	19.7	19.4	25.6	29.0
ROA (%)	6.8	6.8	9.8	12.8	14.6
DPS(HK\$)	-	0.20	0.22	0.24	0.29
Yield (%)	-	0.88	0.96	1.06	1.27
Net Cash (RMBmn)	406	2,616	3,012	3,694	4,577

Note. RMB /HKD: 1.12

\*Excluding listing expenses

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Aug 20, 2020

Rating: **BUY**

TP: HK\$ 28.00

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Share price (HK\$)	22.85
Est. share price return	22.5%
Est. dividend yield	1.0%
Est. total return	23.5%
Previous Rating & TP	BUY; HK\$13.40
Previous Report Date	Mar 11, 2020

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

52Wk H/L(HK\$)	24.00/9.05
Issued shares (mn)	622
Market cap (HK\$ mn)	14,201
3-mth Avg daily turnover (HK\$ mn)	23.31

Major shareholder(s) (%)

Powerlong Holdings	65.06%
Huihong Management	7.23%

Source(s): Bloomberg, ABCI Securities

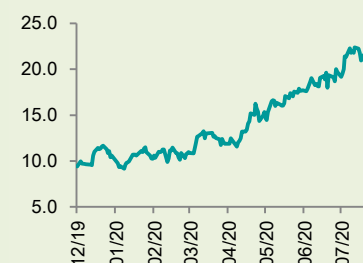
### Share Performance (%)

	Absolute	Relative*
1-mth	19.3	18.7
3-mth	48.8	43.5
6-mth	101.1	120.8

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### Share performance (HK\$)



Source(s): Bloomberg, ABCI Securities



Source(s): The Company, ABCI Securities estimates



## Financial statements

### Consolidated income statement (2018A-2022E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
<b>Revenue</b>	<b>1,200</b>	<b>1,620</b>	<b>1,969</b>	<b>2,670</b>	<b>3,450</b>
Cost of services	(875)	(1,192)	(1,391)	(1,851)	(2,349)
<b>Gross Profit</b>	<b>326</b>	<b>428</b>	<b>579</b>	<b>819</b>	<b>1,101</b>
Selling and marketing expenses	(31)	(42)	(44)	(55)	(70)
Administrative expenses	(80)	(88)	(91)	(109)	(136)
<b>EBIT</b>	<b>214</b>	<b>299</b>	<b>444</b>	<b>655</b>	<b>895</b>
Other income	14	17	17	17	17
Finance income	11	8	28	34	41
Finance expenses	(55)	(40)	(28)	(28)	(28)
Net impairment losses	(3)	(7)	(25)	(11)	(6)
Other (losses)/gains-net	1	(29)	-	-	-
<b>Profit before tax</b>	<b>183</b>	<b>247</b>	<b>435</b>	<b>666</b>	<b>919</b>
Tax	(50)	(69)	(109)	(167)	(230)
<b>Profit after tax</b>	<b>133</b>	<b>179</b>	<b>327</b>	<b>500</b>	<b>689</b>
Minority interest	-	-	(1)	(3)	(3)
<b>Net profit</b>	<b>133</b>	<b>179</b>	<b>326</b>	<b>497</b>	<b>686</b>
Less: exceptional items	0	29	0	0	0
<b>Core net profit*</b>	<b>133</b>	<b>208</b>	<b>326</b>	<b>497</b>	<b>686</b>
<b>Growth %</b>					
Revenue	23.4%	35.0%	21.5%	35.5%	29.2%
Gross Profit	28.6%	31.5%	35.1%	41.6%	34.5%
EBIT	52.4%	39.5%	48.5%	47.5%	36.7%
Core profit	69.7%	56.0%	56.5%	52.6%	38.0%
<b>Margin %</b>					
Gross margin	27.1%	26.4%	29.4%	30.7%	31.9%
EBIT margin	17.8%	18.4%	22.5%	24.5%	25.9%
Core Net margin	11.1%	12.8%	16.5%	18.6%	19.9%
<b>Revenue breakdown</b>					
Commercial operational services	980	1,335	1,575	2,116	2,671
Property management services	221	285	394	554	779
<b>Total</b>	<b>1,200</b>	<b>1,620</b>	<b>1,969</b>	<b>2,670</b>	<b>3,450</b>
<b>Key assumptions</b>					
<b>Contracted GFA (mn sqm)</b>	<b>21.7</b>	<b>28.4</b>	<b>36.5</b>	<b>45.8</b>	<b>57.6</b>
- COS	6.9	8.9	10.8	12.1	13.4
- RPMS	14.8	19.5	25.7	33.7	44.1
<b>GFA under management (mn sqm)</b>	<b>16.6</b>	<b>18.5</b>	<b>22.9</b>	<b>31.1</b>	<b>40.3</b>
- 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
<b>Current assets</b>	<b>1,458</b>	<b>2,824</b>	<b>3,238</b>	<b>3,956</b>	<b>4,880</b>
Bank balances and cash	553	2,616	3,012	3,694	4,577
Restricted cash	487	0	0	0	0
Prepayments and other receivables	334	91	109	145	186
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
<b>Non-current assets</b>	<b>719</b>	<b>267</b>	<b>307</b>	<b>303</b>	<b>295</b>
Property, plant and equipment	173	7	11	14	15
Investment properties	156	207	202	196	187
Deferred tax assets	56	48	48	48	48
Other non-current assets	334	5	45	45	45
<b>Total Assets</b>	<b>2,178</b>	<b>3,091</b>	<b>3,545</b>	<b>4,259</b>	<b>5,175</b>
<b>Current Liabilities</b>	<b>1,597</b>	<b>1,313</b>	<b>1,578</b>	<b>1,943</b>	<b>2,350</b>
Advances from leasees	30	27	27	27	27
Contracted and lease liabilities	339	489	489	489	489
Trade payables	648	763	1,028	1,393	1,800
Borrowings	526	0	0	0	0
Other current liabilities	54	34	34	34	34
<b>Non-current liabilities</b>	<b>351</b>	<b>190</b>	<b>190</b>	<b>190</b>	<b>190</b>
Bank and other borrowings	108	0	0	0	0
Lease liabilities	236	190	190	190	190
Deferred Tax Liabilities	7	0	0	0	0
<b>Total Liabilities</b>	<b>1,948</b>	<b>1,504</b>	<b>1,768</b>	<b>2,133</b>	<b>2,541</b>
<b>Net Assets</b>	<b>230</b>	<b>1,587</b>	<b>1,777</b>	<b>2,126</b>	<b>2,634</b>
Shareholders' Equity	230	1,587	1,776	2,122	2,627
Minority Interest	0	0	1	4	7
<b>Total Equity</b>	<b>230</b>	<b>1,587</b>	<b>1,777</b>	<b>2,126</b>	<b>2,634</b>
<b>Key ratio</b>					
Gross debt (RMB mn)	634	-	-	-	-
Net debt/ (cash) (RMB mn)	(406)	(2,616)	(3,012)	(3,694)	(4,577)
Net gearing (%)	-177%	-165%	-170%	-174%	-174%

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	454	669	913
Change in Working Capital	68	74	246	329	367
Tax payment	(35)	(69)	(109)	(167)	(230)
<b>Operating Cash flow</b>	<b>356</b>	<b>410</b>	<b>592</b>	<b>831</b>	<b>1,050</b>
Purchase of PP&E	(3)	(10)	(10)	(10)	(10)
Purchase of intangible assets	-	-	(41)	-	-
Restricted cash for bank borrowing	(485)	-	-	-	-
Cash advance to related parties	(1,481)	-	-	-	-
Repayment of related parties	1,935	202	-	-	-
Others	2	341	28	34	41
<b>Investing Cash flow</b>	<b>(31)</b>	<b>533</b>	<b>(22)</b>	<b>24</b>	<b>31</b>
Repayments of borrowings	(271)	(634)	-	-	-
Interest paid	(55)	(40)	(28)	(28)	(28)
Equity raised	-	1,389	-	-	-
Payment to shareholders	-	(112)	(137)	(151)	(181)
Others	(75)	516	(8)	6	11
<b>Financing Cash flow</b>	<b>116</b>	<b>1,120</b>	<b>(173)</b>	<b>(173)</b>	<b>(198)</b>
Net cash inflow/ (outflow)	441	2,063	396	682	883
<b>Cash- beginning</b>	<b>113</b>	<b>553</b>	<b>2,616</b>	<b>3,012</b>	<b>3,694</b>
<b>Cash- year-end</b>	<b>553</b>	<b>2,616</b>	<b>3,012</b>	<b>3,694</b>	<b>4,577</b>

Source(s): The Company, ABCI Securities estimates



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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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