

## Redsun Services Group (1971 HK) Commercial portfolio to drive growth

- We expect GFA under management to increase from 23.5mn sqm in 2020 to 44.8mn sqm in 2022, implying 38% CAGR during the period.
- Commercial projects account for 21.5% of total GFA under management as at Dec 2019.
- Contracted sales (by GFA) of RPG, a listed developer 72%-owned by the controlling shareholders, rose at 70% CAGR in 2017-19 to 4.90mn sqm, supporting the Group's future GFA growth. 1H20 contracted GFA only dropped 6%YoY despite negative impacts of COVID-19 in early 2020.
- Initiate **BUY** with DCF-based TP of HK\$9.25

**A comprehensive community service provider in Jiangsu.** Founded in Nanjing in 2003, Redsun Services Group (RSG) is a well-recognized comprehensive community service provider in Jiangsu province, China, with strong capability in managing for residential and commercial properties. As of Dec 31, 2019, RSG's total contracted GFA reached ~27.6mn sqm, comprising 167 projects in 41 cities. Meanwhile, RSG's GFA under management rose from 9.1mn sqm in 2017 to 9.9mn sqm in 2018 (+9% YoY), 15.8mn sqm in 2019 (+59%YoY). Nanjing and Jiangsu (excluding Nanjing) account for 66% and 22% of GFA under management.

**Revenue/ net profit to grow at 42% / 58% CAGR in 2020E-22E driven by new projects from related companies.** Redsun Properties Group (RPG), a listed developer 72%-owned by the controlling shareholder, is a leading property developer established in the Yangtze River Delta region (YRD). According to RPG's annual report, contracted sales increased 38% YoY to RMB 65.15bn while contracted GFA rose 39% YoY to 4.90mn sqm in FY19. During 2017-19, RSG maintained a 100% success rates in tender bids for properties developed by RPG. Redsun Material City Group, which mainly engages in the operation of home improvement and furnishings mall, is classified as other associates of controlling shareholders. PM revenue from other associates of the controlling shareholder also grew at 22% CAGR during 2017-19.

**Commercial properties specialist.** PM revenue from commercial projects rose from RMB 111mn in 2017 to RMB 177mn in 2019, implying a CAGR of 26% in 2017-19. In 2019, commercial projects represented 49.9% of PM revenue. According to RPG's FY19 results, four Hong Yang Plazas have started operation, and it is planning to open 11 other Hong Yang Plazas in the future, which would boost RSG's income.

**Initiate BUY with TP at HK\$9.25.** Since a substantial proportion of RSG's revenue is determined by property management (PM) agreements that generate regular and predictable cash flow, we employ the DCF model in our valuation. Our DCF-based TP of HK\$9.25 translates into 24.0x P/E and 4.7x P/B for 2021E, higher than the peer average of 21.6x. We believe RSG deserves to trade at a premium over its peers, given its strong pricing power in commercial projects and favorable geographic exposure in YRD.

### Financial Summary

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	349	503	715	1,059	1,440
Chg (% YoY)	35.7	44.1	42.2	48.1	35.9
Core net profit (RMB mn) <sup>(1)</sup>	33	59	83	144	207
Chg (% YoY)	10.5	79.3	40.5	73.3	43.6
Core EPS (RMB)	0.11	0.20	0.20	0.35	0.50
Chg (% YoY)	10.5	79.3	1.6	73.3	43.6
BVPS (RMB)	0.17	0.69	1.52	1.78	2.16
Chg (% YoY)	192.0	314.6	119.6	17.1	21.0
Core P/E (x)	54.7	30.53	30.05	17.34	12.08
P/B (x)	36.0	8.69	3.96	3.38	2.79
Core ROE (%)	65.8	27.2	13.0	19.2	22.9
Core ROA (%)	12.5	11.0	8.7	13.2	16.1
DPS (RMB)	-	-	0.05	0.09	0.12
Yield (%)	-	-	0.83	1.44	2.07
Net cash (RMB mn)	33	179	837	935	1,092

<sup>(1)</sup> Core net profit = Profit after tax – other expenses and non-recurring items and related tax impact

Source(s): The Company, ABCI Securities estimates

## Initiation Report

Aug 13, 2020

Rating: **BUY**

TP: HK\$ 9.25

Analyst : Kenneth Tung  
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Share price (HK\$)	6.72
Est. share price return	37.6%
Est. dividend yield	0.8%
Est. total return	38.4%
Previous Rating & TP	NA
Previous Report Date	NA

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

52Wk H/L (HK\$)	7.63/4.15
Issued shares (mn)	415
Market cap (HK\$ mn)	2,789
Avg daily turnover since IPO (HK\$ mn)	25.83

### Major shareholder(s) (%):

Mr. Zeng Huansha	72.29%
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Source(s): Bloomberg, ABCI Securities

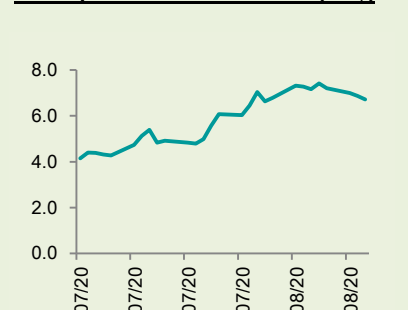
### Share Performance (%)

	Absolute	Relative*
1-mth	34.5	35.7
3-mth	NA	NA
6-mth	NA	NA

\*Relative to HSI

Source(s): The Company, ABCI Securities

### Share performance since IPO (HK\$)



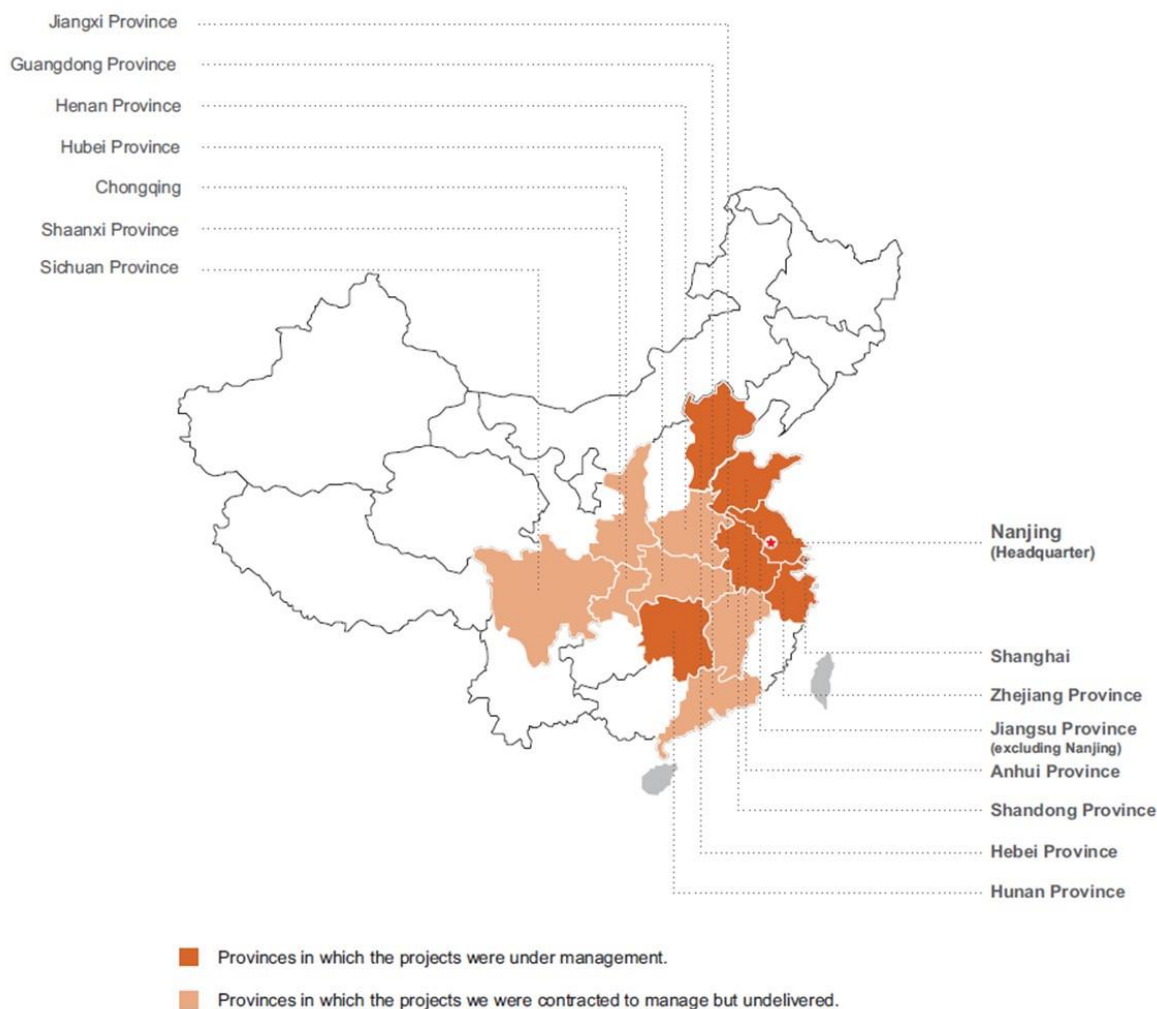
Source(s): Bloomberg, ABCI Securities

## A comprehensive community service provider in Jiangsu

Founded in Nanjing in 2003, Redsun Services Group (RSG) is a well-recognized community service provider in Jiangsu province, China, with outstanding capability in managing property management (PM) abilities for both residential and commercial properties. As of Dec 31, 2019, RSG's total contracted GFA reached ~27.6mn sqm, comprising 167 projects in 41 cities across 14 provinces, municipalities, and autonomous regions in China. Nanjing and Jiangsu (excluding Nanjing) accounted for 66% and 22% of GFA under management. Besides, the contracted GFA of properties to which RSG provided consulting services reached ~2.7mn sqm, comprising 17 projects in three cities as of Dec 31, 2019.

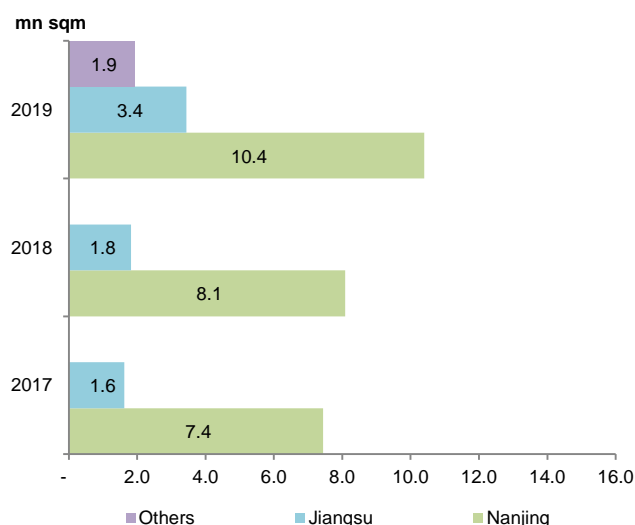
Through organic growth and M&A, RSG's GFA under management rose from 9.1mn sqm in 2017 to 9.9mn sqm in 2018 (+9% YoY) and 15.8mn sqm in 2019 (+59%YoY).

**Exhibit 1: RSG's projects under management in China (Dec 2019)**



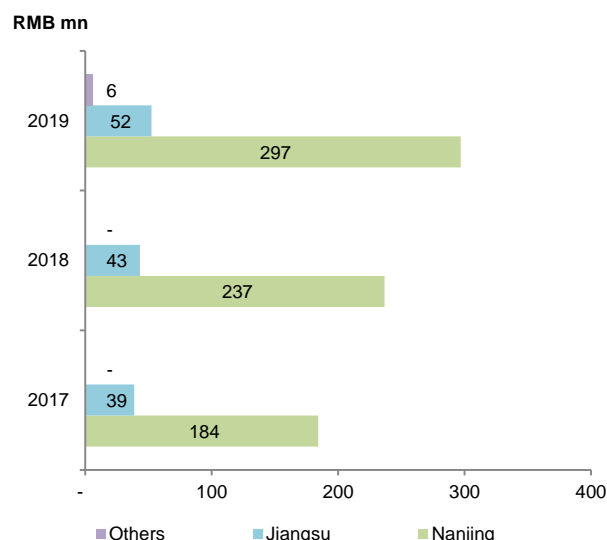
Source(s): The Company, ABCI Securities

**Exhibit 2: RSG's GFA under management by region**



\*Jiangsu figures excluded Nanjing; Others included Zhejiang, Hebei, Hunan, Shandong, Anhui and Shanghai  
Source(s): The Company, ABCI Securities

**Exhibit 3: RSG's PM revenue by region**



\*Jiangsu figures excluded Nanjing; Others included Zhejiang, Hebei, Hunan, Shandong, Anhui and Shanghai  
Source(s): The Company, ABCI Securities

## Diversified revenue mix

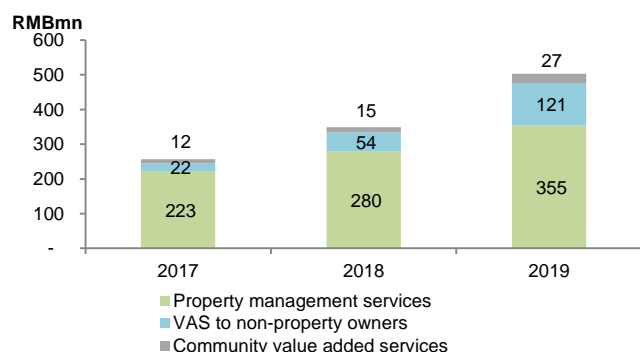
RSG has three main business lines.

**1) PM services.** RSG provides property owners, residents, and tenants with a wide range of PM services, including, among others, security, cleaning, greening and gardening, facility management, and repairs and maintenance services. The portfolio of managed properties comprises of residential, commercial, and other properties, including shopping malls, home improvement and furnishings malls, hotels, theme parks, office buildings, and schools. The segment's revenue, which accounted for 70.5% of total revenue in 2019, expanded at a CAGR of 26% in 2017-19.

**2) Value-added services to non-property owners (VASNPO).** RSG also provides VASNPO, including (i) consulting services to other property management companies, helping them provide better services to customers; (ii) preliminary planning and design consultancy services to property developers for property development projects; (iii) sales assistance services to property developers to assist with their sales and marketing activities at property sales venues and display units, including visitor reception, cleaning, security inspection, and maintenance; (iv) other value-added services (VAS) to property developers, such as inspection services. The segment's revenue, which accounted for 24.1% of total revenue in 2019, expanded at a CAGR of 135% in 2017-19.

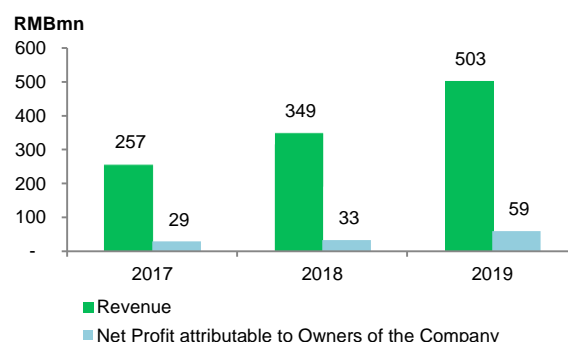
**3) Community value-added services (CVAS).** RSG provides these services to residential property owners and residents to preserve and increase the value of their living properties. CVAS for residential properties primarily includes, among others, (i) property brokerage services, (ii) property decoration services, (iii) community convenience services, (iv) common area value-added services, and (v) assets management services. The segment's revenue, which accounted for 5.4% of total revenue in 2019, grew at a CAGR of 48% in 2017-19.

**Exhibit 4: RSG's revenue mix (2017-19)**



Source(s): The Company, ABCI Securities

**Exhibit 5: RSG's revenue and net profit attributable to owners of the Company (2017-19)**



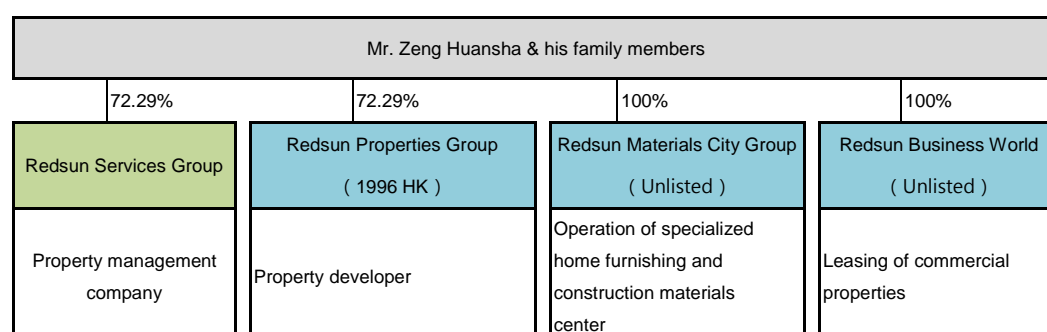
Source(s): The Company, ABCI Securities

## History and shareholding structure

Mr. Zeng Huansha, the founder of RSG and ultimate controlling shareholder, began his involvement in construction and building materials in 1995. In 1999, Mr. Zeng established Nanjing Redsun, the principal operating subsidiary of Redsun Properties Group (which was subsequently listed in HK in 2018) and began engaging in residential property development in Nanjing. Nanjing Redsun commenced the sale of its first residential property project, Hua Impression Golden Garden (旭日華庭), in Nanjing in 2003.

RSG has a well-established and ongoing business relationship with Hong Yang Group Company and its associates (the "Hong Yang Parent Group") controlled by Mr. Zeng. RSG has been providing PM services to various types of properties of the Hong Yang Parent Group, including residential properties of the Redsun Properties Group since 2003, the specialized home furnishing and construction materials centers of the Redsun Materials City Group, and commercial properties of the Redsun Properties Group since 2015.

**Exhibit 6: Shareholder structure (Aug 2020)**



Source(s): The Company, ABCI Securities

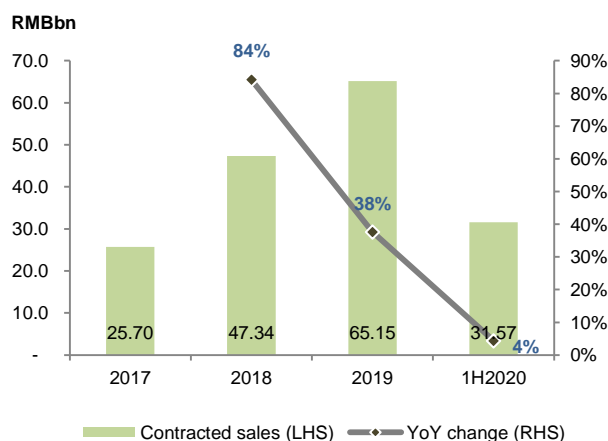
## Property management business: Three growth engines

### Three growth engines- RPG, independent third parties, and other associates of controlling shareholders

RSG's fast-growing GFA under management is driven by projects from related companies, which include RPG, independent third parties, and other associates of controlling shareholders. RSG's managed GFA rose from 9.1mn sqm in 2017, to 15.8mn sqm in 2019, implying a 32% CAGR during the period. In 2019, RPG, independent third parties and other associates of controlling shareholder account for 61.8%, 30.0% and 8.1% of total GFA under management or 55.6%, 14.0% and 30.4% of total PM revenue.

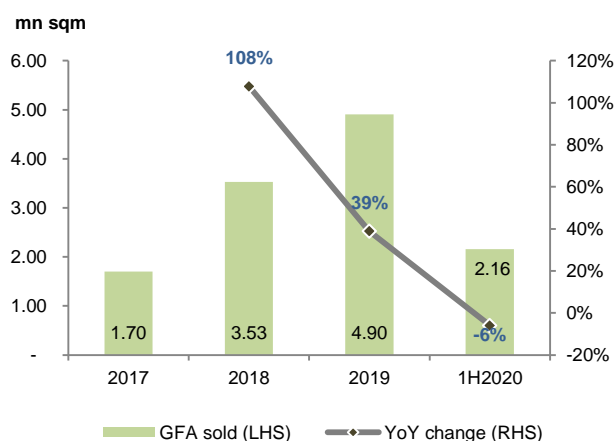
**RPG:** RPG is a leading comprehensive property developer established in the Yangtze River Delta region (YRD). According to RPG's annual report, contracted sales increased 38% YoY to RMB 65.15bn while contracted GFA rose 39% YoY to 4.90mn sqm in FY19. Due to the COVID-19 pandemic, RPG's contracted GFA was down 6%YoY in 1H20. As of Dec 2019, RPG had a landbank of 16.9mn sqm, up 29% YoY compared to 13.1mn sqm as at Dec 2018. During 2017-19, RSG had a success rate of 100% in tender bidding for properties developed by RPG. Expanding landbank and contracted sales of RPG would ensure RSG a steady pipeline of new projects.

**Exhibit 7: RPG's contracted sales**



Source(s): RPG, ABCI Securities

**Exhibit 8: RPG's contracted GFA**

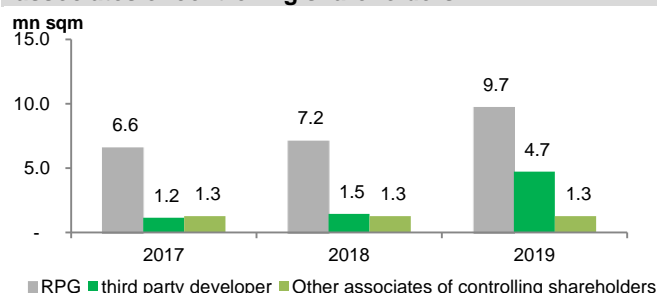


Source(s): RPG, ABCI Securities

**Third parties:** The Group has been expanding the market share for projects from third-party developers in recent years. The success rates of its tender bids for properties by third-party developers independent from RPG were 75.0%, 16.7%, and 25.0%, respectively. GFA under management from third-party developers increased at a CAGR of 102% to 4.7mn sqm as of Dec 31, 2019, from 1.2mn sqm as of Dec 31, 2017. As of Dec 2019, projects from third-party developers represented 30.0% of total GFA under management.

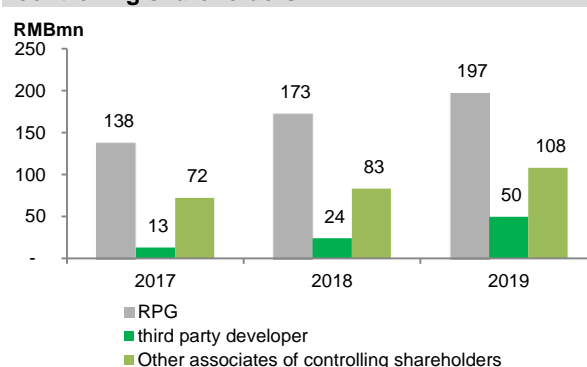
**Other associates of controlling shareholders:** Managed GFA from other associates of the controlling shareholder remained stable at 1.3mn sqm in 2017-19, but PM revenue increased at 22% CAGR during the period on higher fee rates. Redsun Material City Group, which mainly engages in the operation of home improvement and furnishings malls, is classified as other associates of controlling shareholders. The higher fee rates reflected RSG's competitive edge and pricing power in commercial property management.

**Exhibit 9: Total GFA under management from projects developed by RPG, third-party developers, and other associates of controlling shareholders**



Source(s): The Company, ABCI Securities

**Exhibit 10: PM revenue from projects developed by RPG, third-party developers, and other associates of controlling shareholders**



Source(s): The Company, ABCI Securities

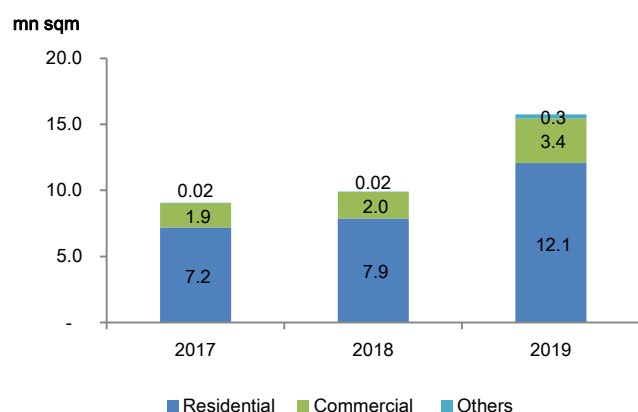
## A commercial property specialist

Benefiting from the “residential + commercial two-wheel driven (住宅+商業雙輪驅動)” strategy adopted by RPG, RSG has commenced the management of commercial properties since 2015 in addition to the residential ones.

According to RPG’s FY19 results announcement, RPG commenced operation of four Hong Yang Plazas located in Nanjing in Jiangsu, Changzhou in Jiangsu, Yantai in Shandong, and Tengzhou in Shandong. Gross rental revenue of RPG rose 15%YoY to RMB 411mn in FY19. RPG is planning to open 11 new Hong Yang Plazas in Anqing, Dacheng, Phoenix East in Changzhou, Hefei, Hengyang, Jining, Xuzhou, Yangzhou, Yanjiao, as well as Fushan and Lekai in Yantai.

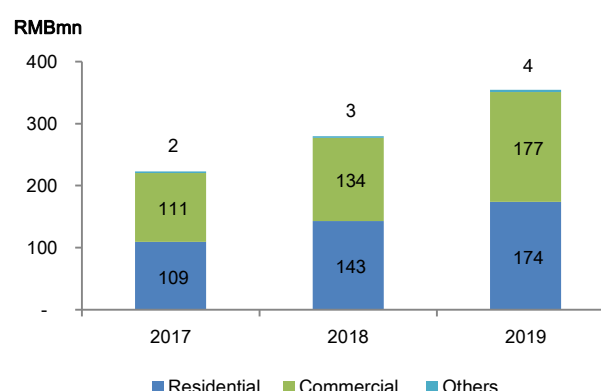
In 2017 and 1H18, RSG charged a fixed property management fee for commercial properties. Starting from 2H18, RSG priced its services for commercial properties on a cost-plus basis with a reasonable profit margin. PM revenue from commercial projects rose from RMB 111mn in 2017 to RMB 177mn in 2019, implying a CAGR of 26%. In 2019, commercial projects represented 49.9% of PM revenue.

**Exhibit 11: GFA under management by property type**



Source(s): The Company, ABCI Securities

**Exhibit 12: PM revenue by property type**



Source(s): The Company, ABCI Securities



## Room for margin improvement

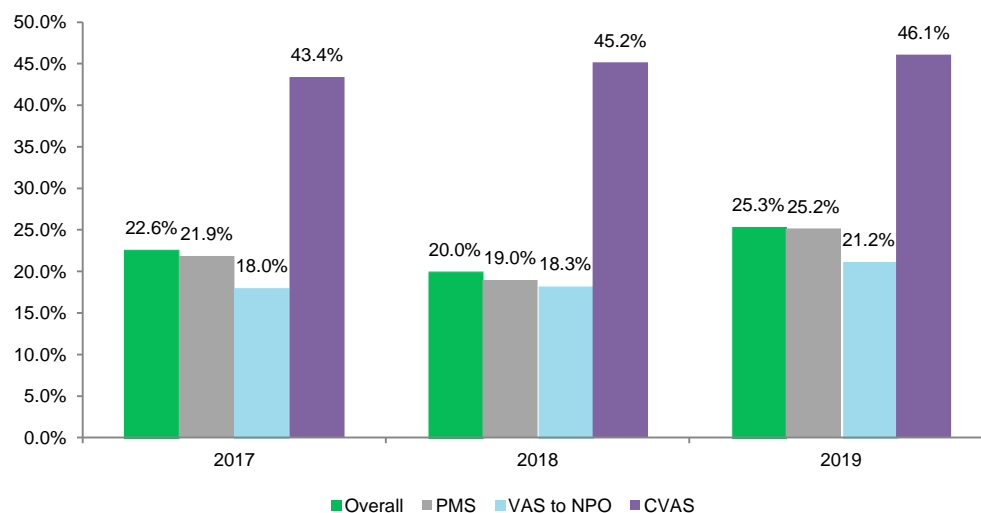
In 2019, RSG increased its GFA under management by 2.237mn sqm and contracted GFA by 2.972mn sqm via the acquisition of a 51% stake in Nanjing Ya Dong Property Management and Shanghai Andi; the total considerations were RMB 23mn and RMB 1.785mn. Due to the lower fee rate of the newly acquired entities, the Group's overall residential properties fee rate dropped 1.9%YoY to RMB 1.54/sqm/mth in 2019. On the other hand, the fee rate of commercial properties jumped 26.4% YoY to RMB 7.08/sqm in 2019, driven by the completion of Redsun Plaza's renovation in May 2018. RSG's gross margin rose 5.3ppt YoY to 25.3% in 2019 on higher blended management fees and faster CVAS revenue growth.

### Exhibit 13: Average property management fee for RSG

(RMB/sqm/mth)	2017	2018	2019
<b>Residential properties</b>	<b>1.27</b>	<b>1.57</b>	<b>1.54</b>
YoY change		23.6%	-1.9%
- RPG	1.33	1.59	1.58
YoY change		19.5%	-0.6%
- 3rd party developers	0.92	1.50	1.42
YoY change		63.0%	-5.3%
<b>Commercial properties</b>	<b>5.0</b>	<b>5.6</b>	<b>7.08</b>
YoY change		12.0%	26.4%
- RPG	5.70	5.97	7.23
YoY change		4.7%	21.1%
- 3rd party developers	-	-	2.85
YoY change			
- Other associates of controlling shareholders	4.69	5.4	7.01
YoY change		15.1%	29.8%
<b>Other properties</b>	<b>10.26</b>	<b>10.85</b>	<b>10.6</b>
YoY change		5.8%	-2.3%
<b>Overall</b>	<b>2.05</b>	<b>2.43</b>	<b>2.56</b>
YoY change		18.5%	5.3%

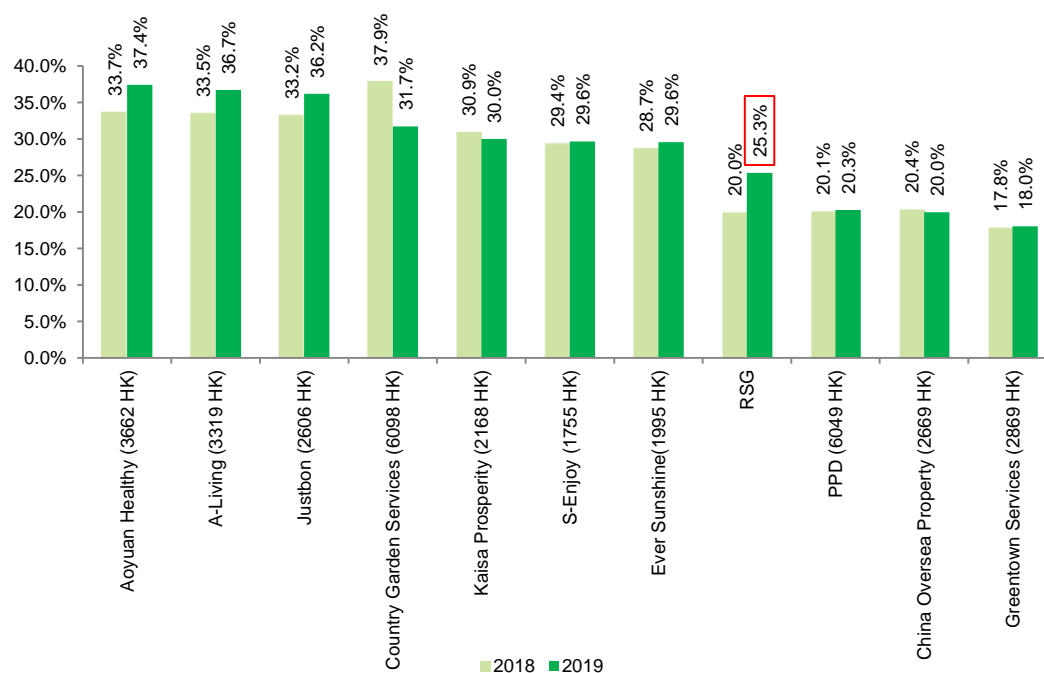
Source(s): The Company, ABCI Securities

**Exhibit 14: RSG's gross margin**



Source(s): The Company, ABCI Securities

**Exhibit 15: Gross margin comparison**



Source(s): Annual reports of respective companies, ABCI Securities



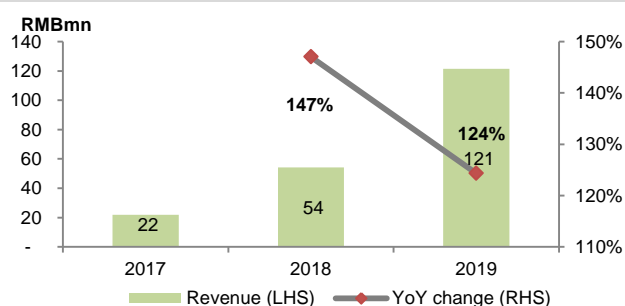
## Value-added services to non-property owners (VASNPO): Rising presales activities of RPG drives growth

VASNPO primarily include (i) consulting services to other property management companies, helping them provide better services to customers; (ii) preliminary planning and design consultancy services to property developers for property development projects; (iii) sales assistance services to property developers to assist with sales and marketing activities at property sales venues and display units, including visitor reception, cleaning, security inspection, and maintenance; (iv) other VAS such as inspection services to property developers.

RSG generally charges a fixed fee for the VASNPO on a transaction basis, which is determined based on the nature and scope of the services, the headcount and positions of the staff, and the size, location, and positioning of the properties involved. RSG generally does not give any credit terms to customers. Contract terms for VASNPO are generally set to expire when the customers notify the services are no longer required.

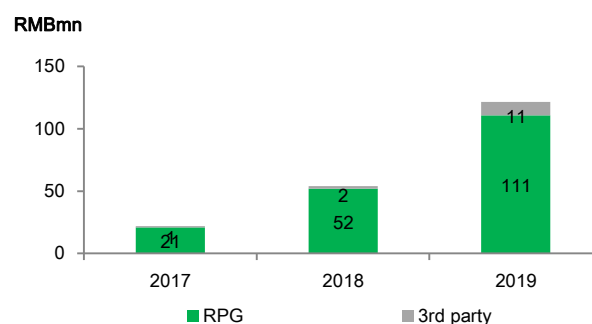
Driven by RPG's growing presales activities, revenue from VASNPO increased from RMB 22mn in 2017 to RMB121mn in 2019, implying a CAGR of 135% during the period. Leveraging its expertise in PM and brand image, RSG has gradually expanded the customer base for VASNPO to independent third-party property developers since 2017. In our view, providing such services to independent third-party property developers would help the Group solicit PM contracts later. In 2019, independent third-party property developers accounted for 8.8% of revenue from VASNPO, compared to 3.9% in 2018.

**Exhibit 16: Revenue from VASNPO**



Source(s): The Company, ABCI Securities

**Exhibit 17: Revenue from VASNPO by customer type**



Source(s): The Company, ABCI Securities



## Community value-added services (CVAS): Penetration rate is set to increase

RSG's major CVAS includes:

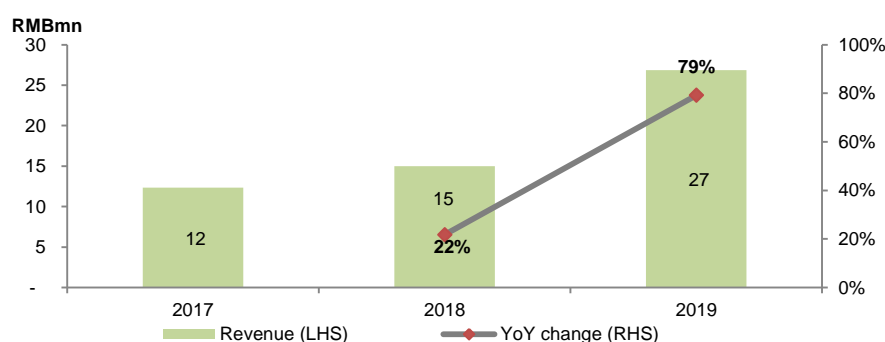
- **Property brokerage services.** RSG started to provide residential property brokerage services in 2015. As of Dec 31, 2019, RSG's property brokerage team comprises 38 members experienced in property brokerage services. RSG offers brokerage services for property purchasing and/or leasing transactions primarily for properties under its management. The Group typically charges the seller and the purchaser a commission calculated at a fixed percentage of the contract purchase price, which will be 1.0% from the purchaser upon the closing of a successful property purchasing transaction, and one-month rent as commission for property leasing. RSG also assists property owners with their application for property ownership certificates and/or mortgage loans. Moreover, RSG provides agency services for property developers to solicit potential purchasers.
- **Property decoration services.** As of Dec 31, 2019, RSG had a team with seven members providing property decoration services. RSG cooperates with third-party decoration companies to provide owners and residents of its managed properties with design and decoration services with turnkey furnishing packages to create a move-in ready residence, for which the Group acts as an agent. RSG assists the owners and residents of our managed properties in identifying suitable third-party decoration companies to decorate and furnish the units and purchasing furniture, home appliances and accessories. RSG also provides agency services to owners and residents of its managed properties for renovation services for second-hand properties. RSG charges third-party decoration companies or merchants of home appliance a pre-negotiated percentage on the contract amount as commission for property decoration services.
- **Community convenience services.** RSG offers community convenience services in collaboration with third-party merchants such as tourism services, housekeeping services, repair and maintenance services of home appliances, and express delivery assistance. RSG charges third-party merchants a pre-negotiated percentage on the contract amount as commission for community convenience services.
- **Community resources operation services.** RSG is devoted to increasing income from the operation of community resources through optimizing the public area sources, including (i) publishing advertisement in public area, such as exterior wall, lobby and elevator room, (ii) leasing community properties and facilities, such as leasing function rooms of the clubhouse and sports field within the community, and (iii) leasing common area for third-party commercial activities. Under relevant laws and regulations and property management contracts, the Group is obligated to share the profit from community resource operation services with property owners' associations or single owners, as appropriate.
- **Asset management services.** The Group assists RPG with car park sales after a project is delivered. RSG's property brokerage team is also involved in asset management services. RSG charges RPG a pre-determined commission for each car park sold.

For certain CVAS utilizing the community's common area, such as community convenience services and community resources operation services, RSG is required to share the profit from such services with property owners' associations or property owners under relevant laws and regulations. RSG negotiates with property owners' associations or property owners on the sharing percentage, generally ranging from 30%-50%. RSG's

revenue from CVAS was recorded on a net basis after deducting the proportion of profit to be shared with property owners' associations or property owners.

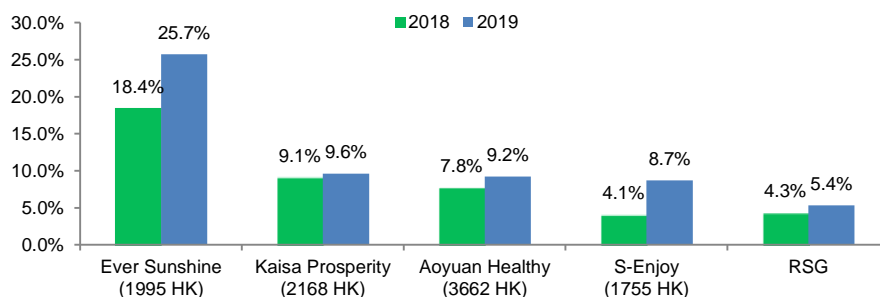
Driven by the growing penetration rate, revenue from CVAS increased from RMB 12mn in 2017 to RMB 27mn in 2019, implying a CAGR of 48%, faster than the growth of GFA under management period (32% CAGR in 2017-19). However, given that CVAS only represented 5.4% of total revenue in 2019 (vs. the peer range of 8.7%-25.7%), we expect this higher-margin business (2019 gross margin for CVAS segment was 46.1% vs. 25.3% for the Group's overall gross margin ) would accelerate further in coming years.

**Exhibit 18: Revenue from CVAS**



Source(s): The Company, ABCI Securities

**Exhibit 19: CVAS as a percentage of total revenue: RSG vs. peers**



Source(s): The Company, ABCI Securities

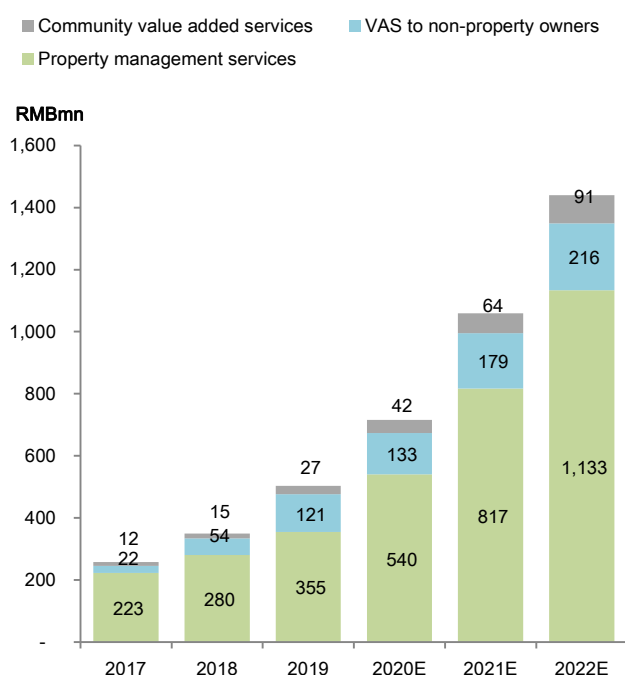
## Earnings forecasts

### Net profit to expand at 58% CAGR over 2020E-22E

We expect revenue to grow at 42% CAGR in 2020E-22E on expanding GFA under management (38% CAGR in our forecast). Meanwhile, we estimate the average management fee rate of residential and commercial projects would increase at 3% and 5% CAGRs for 2020-22E since newly completed residential projects under management will have a higher fee rate while its pricing power for commercial projects is usually higher.

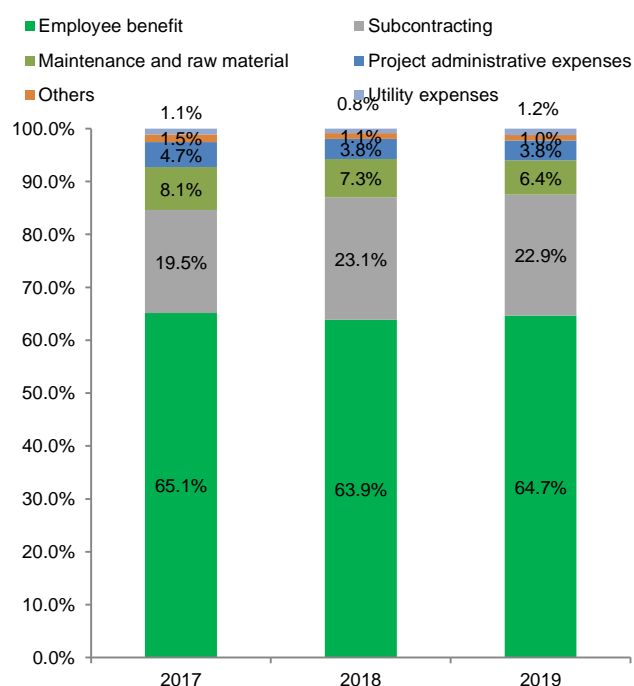
We expect gross margin to increase steadily from 26.6% in 2020E to 28.5% in 2022E due to 1) higher average management fee rates; 2) improving efficiency on economies of scale and digitalization. Core net margin would increase from 11.8% in 2020E to 14.4% in 2022E as a result of higher interest income from a growing net cash balance. We assume RSG to increase its GFA under management by 3mn sqm each year through M&A in our forecast. Based on the increasing revenue and improving gross margin, we expect core profit to increase from RMB 84mn in 2020E to RMB 207mn in 2022E, representing a 58% CAGR in 2020E-22E.

**Exhibit 20: RSG's revenue breakdown**



Source(s): The Company, ABCI Securities estimates

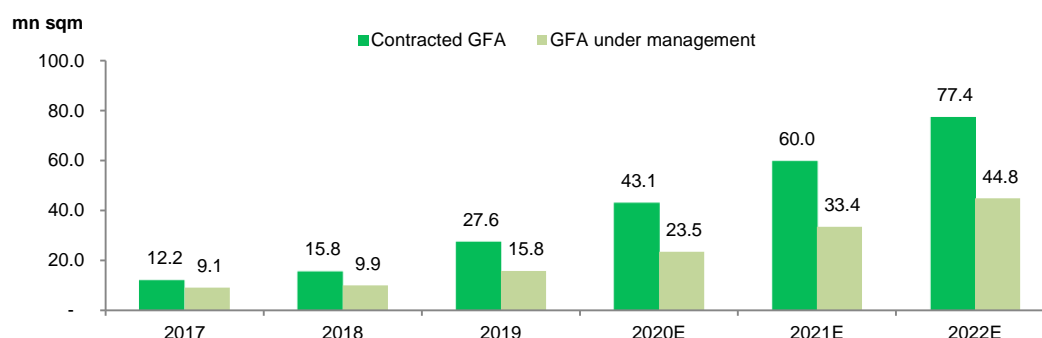
**Exhibit 21: RSG's cost of sales breakdown**



Source(s): The Company, ABCI Securities

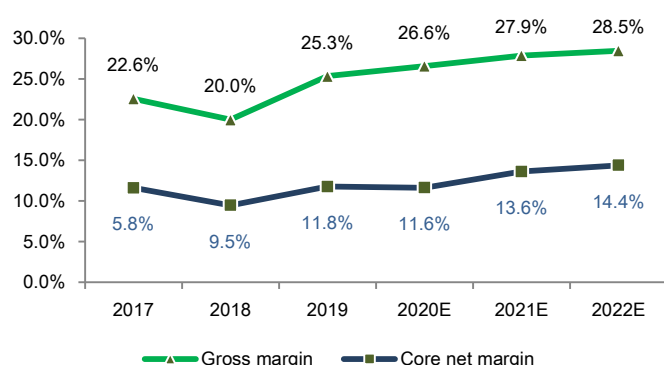
RSG also issued a positive profit alert in July that its adjusted net profit attributable to equity owners of the company (excluding the effect of listing expenses) is expected to increase not less than 50%, mainly driven by number of projects under management and increasing revenue from VASNPO and CVAS, largely in-line with our expectation.

**Exhibit 22: RSG's GFA under management and contracted GFA**



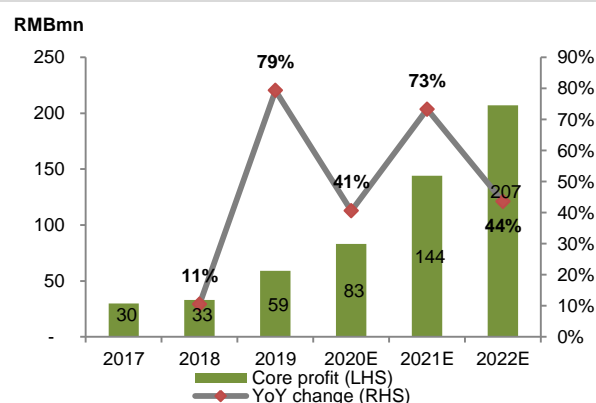
Source(s): The Company, ABCI Securities estimates

**Exhibit 23: Gross and core net margins**



Source(s): The Company, ABCI Securities estimates

**Exhibit 24: RSG's core profit**



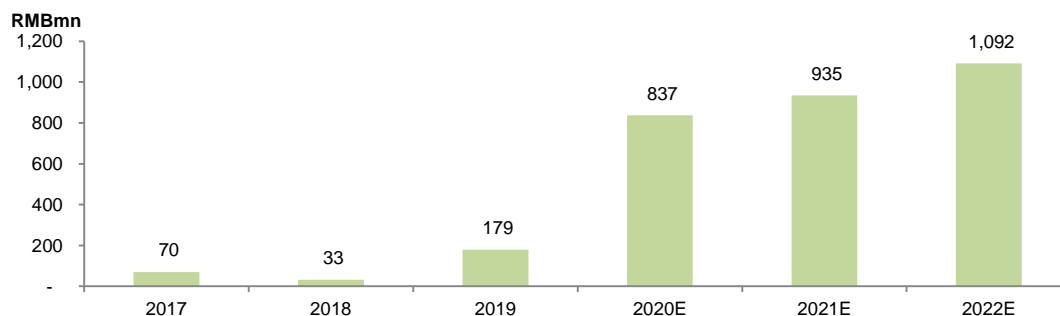
\* Core net profit= Profit after tax – other expenses and non-recurring items and related tax impact

Source(s): The Company, ABCI Securities estimates

## A net-cash company

RSG has been in a net cash position since 2017. Net cash balance grew from RMB 70mn in 2017 to RMB 179mn in 2019. As at Dec 2019, the receivable balance due from related party was RMB 263mn, representing 49% of total assets. We expect cash flow from operation and full repayment of the receivable balance in 2020E would boost the cash balance to RMB 837mn.

**Exhibit 25: Net cash balance**



\* Net cash= total cash minus gross debt

Source(s): The Company, ABCI Securities estimates

## Initiate BUY with TP HK\$9.25 based on DCF

### DCF valuation based on a 10% WACC

The market favors the use of the comparative approach (e.g. fair value-to-earnings multiple) for appraising the PMCs. The method mainly stresses short-term earnings and fails to consider a company's balance sheet position and longer-term growth. A substantial proportion of RSG'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.

The DCF-derived model TP for RSG (with a WACC of 10% and 1% terminal growth) is HK\$ 9.25, which translates into 24.0x P/E and 4.7x P/B for 2021E.

**Exhibit 26: RSG's DCF valuation sensitivity to changes in WACC (2020E)**

Terminal growth	WACC				
	8.0%	9.0%	10.0%	11.0%	12.0%
0%	10.86	9.78	8.92	8.23	7.66
<b>1%</b>	11.49	10.22	<b>9.25</b>	8.47	7.84
2%	12.33	10.79	9.65	8.76	8.05

Variance from the base case Terminal growth	WACC				
	8.0%	9.0%	10.0%	11.0%	12.0%
0%	17%	6%	-3%	-11%	-17%
<b>1%</b>	24%	11%	<b>0%</b>	-8%	-15%
2%	33%	17%	4%	-5%	-13%

Source(s): ABCI Securities estimates

### Comparative approach

We consider the listed small/mid-cap PMCs (with GFA under management <30mn sqm) to be RSG's comparable peers. These include Aoyuan Healthy (3662 HK), Binjiang Services (3316 HK), Xinyuan PM (1895 HK), and Yincheng Life (1922 HK). Our TP implies 24.0x 2021E P/E, as compared to the small/mid-cap peer trading average at 21.6x 2021E P/E based on Bloomberg's consensus forecasts. In our view, RSG deserves a premium over its listed peers, given (1) its strong pricing power for commercial projects; 2) concentrated exposure in affluent cities in YRD.

**Exhibit 27: Valuation of HK-listed PMCs operating in China**

Appendix 27: Valuation of HK listed PMC operating in China																
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	2019A	2020E*	2021E*	2019A	2020E*	2021E*	2019A	2020E*	2021E*
Large PMC (GFA under management >100mn sqm)																
1	Country Garden Services	6098 HK	135.8	49.10	32	87	111	70.2	52.6	38.2	0.2	0.5	0.6	52.2	17.3	12.3
2	A-Living	3319 HK	58.5	43.75	2	64	158	42.3	30.3	23.2	0.8	1.4	1.8	8.5	7.1	6.1
3	Poly Property Development	6049 HK	43.2	77.65	(8)	67	33	57.7	52.5	38.3	0.4	0.6	0.8	7.4	6.7	5.9
4	Greentown Services	2869 HK	32.6	10.10	(7)	19	43	54.2	42.0	32.3	0.8	0.9	1.3	9.2	6.2	5.5
5	China Overseas Property	2669 HK	25.3	7.57	(15)	57	115	47.1	36.5	28.3	0.7	0.8	1.0	16.7	12.4	9.4
Small/mid-sized PMC (GFA under management <100mn sqm)																
1	Ever Sunshine	1995 HK	24.5	14.40	19	178	198	89.5	55.9	36.4	0.4	0.6	0.9	17.6	11.0	9.0
2	S-Enjoy	1755 HK	19.6	22.85	15	98	219	62.9	41.5	27.9	0.9	1.2	1.9	18.9	14.6	10.9
3	Central China New Life	9983 HK	13.1	10.58	NA	NA	NA	36.7	30.9	20.9	0.4	1.0	1.5	23.1	4.3	3.7
4	Times Neighbourhood	9928 HK	11.9	11.96	53	149	122	83.2	44.5	25.9	0.4	0.6	1.1	11.0	7.4	6.1
5	Powerlong CM	9909 HK	13.1	20.95	48	115	2	42.9	41.0	28.1	0.0	1.1	1.8	7.1	6.3	5.5
6	Languang Justbon	2606 HK	9.5	53.50	20	7	32	15.4	14.2	10.7	2.5	2.6	3.4	3.9	3.2	2.7
7	Aoyuan Healthy	3662 HK	5.4	7.59	(17)	29	58	28.2	20.2	14.5	0.3	1.9	2.7	6.0	4.8	3.9
8	Kaisa Prosperity	2168 HK	4.9	31.50	(3)	52	183	24.2	17.3	12.5	0.1	2.0	2.7	11.9	3.6	3.1
9	Binjiang Services	3316 HK	5.0	18.00	51	153	1	36.9	28.0	21.3	0.1	1.8	2.3	12.5	NA	NA
10	Redsun Services	1971 HK	2.9	6.72	NA	NA	NA	30.5	30.0	17.3	0.0	0.8	1.4	8.7	4.0	3.4
11	Xinyuan PM	1895 HK	2.2	4.01	64	180	(33)	16.4	NA	NA	1.4	NA	NA	2.3	NA	NA
12	Yincheng Life	1922 HK	2.4	8.74	296	480	(32)	49.3	NA	NA	0.5	NA	NA	17.3	NA	NA
PMC Avg					37	116	81	46.3	35.8	25.1	0.6	1.2	1.7	13.8	7.8	6.2
- Large PMC					1	59	92	54.3	42.8	32.1	0.6	0.8	1.1	18.8	9.9	7.8
- Small/mid-sized PMC					55	144	75	43.0	32.4	21.6	0.6	1.4	2.0	11.7	6.6	5.4

\*Bloomberg's consensus forecast  
Source(s): Bloomberg, ABCI Securities



**Exhibit 28: FY19 peer comparison by GFA (Small/mid-sized players, GFA under management < 30mn sqm)**

	Aoyuan Healthy 3662 HK			Binjiang Services 3316 HK			Xinyuan PM 1895 HK			Yincheng Life 1922 HK			RSG 1971 HK		
	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg
<b>GFA comparison</b>															
<b>GFA under management (mn sqm)</b>	10.4	15.1	45%	11.6	14.4	24%	15.7	20.1	28%	15.5	26.1	69%	9.9	15.8	59%
- Residential	NA	NA		10.2	12.3	21%	14.1	18.5	31%	13.1	21.1	61%	7.9	12.1	53%
- Non-residential	NA	NA		1.5	2.0	39%	1.5	1.5	1%	2.4	4.9	109%	2.0	3.7	83%
<b>% as total GFA under management</b>															
- Residential				87%	86%	-2%	90%	92%	2%	85%	81%	-4%	80%	77%	-3%
- Non-residential				13%	14%	2%	10%	8%	-2%	15%	19%	4%	20%	23%	3%
<b>GFA under management (mn sqm)</b>	10.4	15.1	45%	11.6	14.4	24%	15.7	20.1	28%	15.5	26.1	69%	9.9	15.8	59%
- Developed by major shareholders/parent group	9.9	13.9	41%	8.2	9.6	17%	11.7	12.7	9%	3.6	5.4	49%	8.4	11.0	31%
- Third parties	0.6	1.2	111%	3.4	4.8	39%	4.0	7.3	85%	11.8	20.7	75%	1.5	4.7	224%
<b>GFA under management (%)</b>															
- Developed by major shareholders/parent group	95%	92%	-2%	71%	67%	-4%	75%	63%	-11%	24%	21%	-3%	85%	70%	-15%
- Third parties	5%	8%	2%	29%	33%	4%	25%	37%	11%	76%	79%	3%	15%	30%	15%
<b>Contracted GFA (mn sqm)</b>	N A	N A		20.8	26.8	29%	26.3	37.0	41%	22.3	30.8	38%	15.8	27.6	75%

Source(s): The Company, Aoyuan Healthy, Binjiang Services, Xinyuan PM, Yincheng Life, ABCI Securities

**Exhibit 29: FY19 peer comparison by financial metric (small/mid-sized player, GFA under management < 30mn sqm)**

	Aoyuan Healthy 3662 HK			Binjiang Services 3316 HK			Xinyuan PM 1895 HK			Yincheng Life 1922 HK			RSG 1971 HK		
	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg
<b>Financials comparison</b>															
<b>Revenue (RMBmn)</b>	619	901	42%	509	702	38%	393	534	36%	468	696	49%	349	503	44%
- PM	306	390	27%	316	412	30%	262	314	20%	368	553	50%	280	355	27%
- VAS to NPO and property agency	99	173	75%	155	224	44%	54	91	69%	-	-		54	121	124%
- CVAS	48	83	73%	38	66	76%	78	128	65%	100	143	43%	15	27	79%
- Others	166	254	54%												
<b>% as total revenue</b>															
- PM	49%	43%	-6%	62%	59%	-3%	67%	59%	-8%	79%	79%	1%	80%	71%	-10%
- VAS to NPO and property agency	16%	19%	3%	31%	32%	1%	14%	17%	3%	0%	0%	0%	16%	24%	9%
- CVAS	8%	9%	1%	7%	9%	2%	20%	24%	4%	21%	21%	-1%	4%	5%	1%
- Others	27%	28%	1%												
<b>Gross profit (RMBmn)</b>	209	337	61%	135	197	46%	134	202	51%	68	112	65%	70	127	83%
<b>Gross Margin (%)</b>	33.7%	37.4%	3.7%	26.5%	28.1%	1.6%	34.0%	37.8%	3.9%	14.5%	16.1%	1.6%	20.0%	25.3%	5.3%
- PM	NA	34.6%		15.6%	16.1%	0.5%	20.7%	21.6%	0.9%	7.7%	9.8%	2.1%	19.0%	25.2%	6.2%
- VAS to NPO and property agency	-	-		43.1%	43.2%	0.1%	49.8%	49.7%	-0.1%	-	-		18.3%	21.2%	2.9%
- CVAS	-	-		49.5%	51.0%	1.6%	67.6%	69.4%	1.7%	39.5%	40.5%	1.0%	45.2%	46.1%	1.0%
- Others	NA	44.5%													
<b>Core net profit* (RMBmn)</b>	94	162	73%	85	125	47%	76	119	57%	27	46	69%	33	59	79%
<b>Net margin (%)</b>	15.2%	18.0%	2.9%	16.8%	17.9%	1.1%	19.3%	22.3%	3.0%	5.8%	6.6%	0.8%	9.5%	11.8%	2.3%
	Dec18	Dec19	YoY chg	Dec18	Dec19	YoY chg	Dec18	Dec19	YoY chg	Dec18	Dec19	YoY chg	Dec18	Dec19	YoY chg
Gross debt (RMBmn)	2	100	NA	-	-	NA	-	-	NA	-	-	NA	5	-	-100%
Cash (RMBmn)	200	823	311%	459	517	13%	354	607	71%	121	448	269%	38	179	375%
<b>Net debt (RMBmn)</b>	(199)	(723)	264%	(459)	(517)	13%	(354)	(607)	71%	(121)	(448)	269%	(33)	(179)	448%
Total Equity (RMBmn)	126	846	570%	185	727	293%	251	563	125%	73	122	66%	50	217	333%
Net gearing (%)	-157%	-85%	72%	-248%	-71%	177%	-141%	-108%	34%	-166%	-368%	-202%	-65%	-82%	-17%

\* Core profit= Net profit-profit/loss from discontinued operation- tax adjustment- (Other (losses)/gains-net + Other exceptional items) x 0.75

Source(s): The Company, Aoyuan Healthy, Binjiang Services, Xinyuan PM, Yincheng Life, ABCI Securities

## Risk factors

- 42.7% of RSG's GFA under management will expire by 2020.**  
 About 42.7% of RSG's GFA under management will expire by 2020. Failure to renew these contracts may lead to PM revenue decline. These are mainly PM contracts with the property owners' associations and public projects, which generally have a fixed term and need to be renewed upon expiration. Contracts without fixed terms will usually be terminated once a property owners' association is formed and a new PM service agreement between such property owners' association and a PM company becomes effective. In our model, we assume these contracts expiring in the coming years would be fully renewed. Hence, our revenue forecast could be inflated if these contracts terminate after expiry.

**Exhibit 30: Expiration schedule of properties developed by RSG (Dec 2019)**

	GFA under management	
	mn sqm	%
Without fixed terms	7.2	45.9%
Year ending Dec 31, 2019	-	0.0%
Year ending Dec 31, 2020	6.7	42.7%
Year ending Dec 31, 2021 and beyond	1.8	11.4%
<b>Total</b>	<b>15.8</b>	<b>100%</b>

Source(s): The Company, ABCI Securities

- Rising labor costs.** As a result of growing headcounts and increasing minimum wages, the staff costs in cost of sales rose from RMB 129.7mn in 2017 to RMB 242.8mn in 2019, implying a CAGR of 37% during the period. As at Dec 31, 2019, RSG had a total of 3,628 employees.
- Loss-making contracts.** In 2017-19, the Group incurred losses of RMB3.5mn, RMB6.1 mn, and RMB5.7 mn, respectively, concerning five, seven, and 15 projects.
- Substantial amount of related-party transactions.** The top three customers of RSG- RPG, Nanjing Material City, and Nanjing Redsun Business World are all related companies and accounted 24.0%, 22.7%, and 2.2% of total revenue in 2019.

**Exhibit 31: Related-party transactions of RSG**

	2017	2018	2019
	RMBmn	RMBmn	RMBmn
RPG	61	62	120
Nanjing Material City	68	92	114
Nanjing Redsun Business World	7	9	11
<b>Total</b>	<b>136</b>	<b>163</b>	<b>245</b>
YoY change		19%	51%
As % of total revenue	53.0%	46.6%	48.9%

Source(s): The Company, ABCI Securities

- Conservative approach in M&A.** RSG only completed two major acquisitions (Nanjing Ya Dong Property Management and Shanghai Andi) to secure 2.237mn sqm in GFA under management for 2019. Since the Group follows a relatively cautious approach in M&A, GFA growth from third parties may slow as the PM market turns mature and it may lose market share to players with a more proactive M&A stance in our view.

## Financial statements

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

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
<b>Revenue</b>	<b>349</b>	<b>503</b>	<b>715</b>	<b>1,059</b>	<b>1,440</b>
Cost of services	(279)	(376)	(525)	(764)	(1,030)
<b>Gross Profit</b>	<b>70</b>	<b>127</b>	<b>190</b>	<b>295</b>	<b>410</b>
Selling and marketing expenses	(1)	(0)	(0)	(1)	(1)
Administrative expenses	(24)	(51)	(81)	(111)	(146)
<b>EBIT</b>	<b>45</b>	<b>76</b>	<b>109</b>	<b>183</b>	<b>263</b>
Other income	1	3	3	9	13
Share of results of associates	-	-	-	-	-
Finance expenses	(1)	(0)	-	-	-
Other expenses and net impairment losses on financial assets	(0)	(1)	(30)	(0)	(0)
<b>Profit before tax</b>	<b>44</b>	<b>78</b>	<b>81</b>	<b>192</b>	<b>276</b>
Tax	(11)	(21)	(20)	(48)	(69)
<b>Profit after tax</b>	<b>33</b>	<b>57</b>	<b>61</b>	<b>144</b>	<b>207</b>
Minority interest	-	2	-	-	-
<b>Net profit</b>	<b>33</b>	<b>59</b>	<b>61</b>	<b>144</b>	<b>207</b>
<b>Core net profit*</b>	<b>33</b>	<b>59</b>	<b>83</b>	<b>144</b>	<b>207</b>
<b>Per share</b>					
Reported EPS (RMB)	0.11	0.20	0.15	0.35	0.50
Core EPS (RMB)	0.11	0.20	0.20	0.35	0.50
DPS (RMB)	-	-	0.05	0.09	0.12
Payout ratio (%)	0%	0%	25%	25%	25%
BVPS (RMB)	0.17	0.69	1.52	1.78	2.16
<b>Growth %</b>					
Revenue	35.7%	44.1%	42.2%	48.1%	35.9%
Gross Profit	20.2%	82.7%	49.3%	55.3%	38.8%
EBIT	11.1%	69.8%	42.8%	68.7%	43.5%
Core profit	10.5%	79.3%	40.5%	73.3%	43.6%
<b>Margin %</b>					
Gross margin	20.0%	25.3%	26.6%	27.9%	28.5%
EBIT margin	12.9%	15.1%	15.2%	17.3%	18.3%
Core net margin	9.5%	11.8%	11.6%	13.6%	14.4%
<b>Revenue breakdown</b>					
Property management services	280	355	540	817	1,133
VAS to non-property owners	54	121	133	179	216
Community value added services	15	27	42	64	91
<b>Total</b>	<b>349</b>	<b>503</b>	<b>715</b>	<b>1,059</b>	<b>1,440</b>
<b>Key assumptions</b>					
Contracted GFA(mn sqm)	15.8	27.6	43.1	60.0	77.4
GFA under management (mn sqm)	9.9	15.8	23.5	33.4	44.8

Source(s): The Company, ABCI Securities estimates

\* Core net profit= Profit after tax – other expenses and non-recurring items and related tax impact



Consolidated balance sheet (2017A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
<b>Current assets</b>	<b>253</b>	<b>503</b>	<b>887</b>	<b>990</b>	<b>1,149</b>
Bank balances and cash	38	179	837	935	1,092
Trade receivables	8	26	15	19	22
Inventories	0	0	0	0	0
Due from related parties	167	263	0	0	0
Other current assets	40	35	35	35	35
<b>Non-current assets</b>	<b>11</b>	<b>37</b>	<b>70</b>	<b>103</b>	<b>135</b>
Property, plant and equipment	8	9	42	75	107
Intangible assets	2	9	9	9	9
Goodwill	0	12	12	12	12
Other non-current assets	2	7	7	7	7
<b>Total Assets</b>	<b>264</b>	<b>540</b>	<b>957</b>	<b>1,093</b>	<b>1,284</b>
<b>Current Liabilities</b>	<b>214</b>	<b>320</b>	<b>314</b>	<b>341</b>	<b>377</b>
Accruals and other payables	65	129	129	129	129
Contract liabilities	48	82	82	82	82
Bank borrowings	5	0	0	0	0
Trade payables	15	43	37	64	101
Other current liabilities	80	66	66	66	66
<b>Non-current liabilities</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
Other non-current liabilities	0	0	0	0	0
Deferred Tax Liabilities	0	2	2	2	2
<b>Total Liabilities</b>	<b>214</b>	<b>322</b>	<b>316</b>	<b>343</b>	<b>380</b>
<b>Net Assets</b>	<b>50</b>	<b>217</b>	<b>641</b>	<b>749</b>	<b>904</b>
<b>Shareholders' Equity</b>	<b>50</b>	<b>208</b>	<b>632</b>	<b>740</b>	<b>895</b>
Minority Interest	0	9	9	9	9
<b>Total Equity</b>	<b>50</b>	<b>217</b>	<b>641</b>	<b>749</b>	<b>904</b>
<b>Key ratio</b>					
Gross debt (RMB mn)	5	-	-	-	-
Net debt/ (cash) (RMB mn)	(33)	(179)	(837)	(935)	(1,092)
Net gearing (%)	-65%	-82%	-131%	-125%	-121%

Source(s): The Company, ABCI Securities estimates



Consolidated cash flow statement (2017A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
EBITDA	47	79	114	190	273
Change in Working Capital	(11)	37	4	23	33
Tax payment	(9)	(5)	(20)	(48)	(69)
<b>Operating Cash Flow</b>	<b>27</b>	<b>111</b>	<b>98</b>	<b>165</b>	<b>238</b>
Purchase of PP&E	(5)	(5)	(38)	(40)	(42)
Disposal of IP	-	-	-	-	-
Change in financial assets	34	31	-	-	-
Proceeds from disposal of financial assets	-	-	-	-	-
Others	(134)	(53)	-	-	-
<b>Investing Cash Flow</b>	<b>(105)</b>	<b>(28)</b>	<b>(38)</b>	<b>(40)</b>	<b>(42)</b>
Debt raised	5	(5)	-	-	-
Interest expenses	(1)	(0)	-	-	-
Equity raised	-	-	384	-	-
Dividend	-	-	(21)	(36)	(52)
Others	42	64	235	9	13
<b>Financing Cash Flow</b>	<b>46</b>	<b>58</b>	<b>598</b>	<b>(27)</b>	<b>(39)</b>
<b>Net cash inflow/ (outflow)</b>	<b>(32)</b>	<b>141</b>	<b>658</b>	<b>98</b>	<b>157</b>
<b>Cash- beginning</b>	<b>70</b>	<b>38</b>	<b>179</b>	<b>837</b>	<b>935</b>
<b>Cash- year-end</b>	<b>38</b>	<b>179</b>	<b>837</b>	<b>935</b>	<b>1,092</b>

Source(s): The Company, ABCI Securities estimates

## Appendix I- Company background

### Exhibit 32: RSG's Corporate information

<b>Auditor</b>	Ernst & Young
<b>Headquarter</b>	25th Floor Hong Yang Building No. 9 Daqiao North Road Nanjing Jiangsu Province, the PRC
<b>Company secretaries</b>	Mr. Wong Yu Kit (黃儒傑) (ACS, ACIS)
<b>Authorised representatives</b>	Mr. He Jie (何捷) Mr. Wong Yu Kit (黃儒傑) (ACS, ACIS)

Source(s): The Company, ABCI Securities

### Exhibit 33: Board of directors

Name	Position	Role and responsibilities
Mr. YANG Guang	Executive Director and executive president	Responsible for the overall management of the Group
Mr. ZENG Zixi	Executive Director and vice president	Responsible for the operational management of the Group
Mr. HE Jie	Chairman of the Board and non-executive Director	Responsible for assisting the planning of corporate strategy of the Group
Mr. JIANG Daqiang	Non-executive Director	Responsible for providing strategic advice and recommendations on the operations and management of the Group
Mr. LUO Yanbing	Non-executive Director	Responsible for providing strategic advice and recommendations on the operations and management of the Group
Mr. JING Zhishan	Independent non-executive Director	Responsible for providing independent advice on the operations and management of the Group
Mr. WANG Fen	Independent non-executive Director	Responsible for providing independent advice on the operations and management of the Group
Mr. YIM Kai Pung	Independent non-executive Director	Responsible for providing independent advice on the operations and management of the Group

Source(s): The Company, ABCI Securities

## Disclosures

### Analyst Certification

The analyst, Tung Yiu Kei Kenneth, primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

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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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