Evergrande Property Services (6666 HK)
Fast-growing leader in China's residential property management

- GFA under management rose 28%YoY to 237.9mn sqm in 2019 and 6.8%HoH to 254.0mn in 1H20. We expect GFA under management to soar from 306mn sqm in 2020 to 572mn sqm in 2022, implying a CAGR of 36.7%
- High gross and net margins of 36-37% and 24-25% for 2020E-22E.
- GFA from non-residential projects should increase given the diversified business portfolio of the parent group in tourism, healthcare and new-energy vehicles
- Initiate **BUY** with DCF-based TP of HK$20.20

Leading property management (PM) player with national coverage. Evergrande Property Services Group (EPSG, or the Group) is one of the largest comprehensive Property management services (PMS) providers in China. Among the Top 100 Property Management Companies in China, EPSG was ranked second in the number of cities covered by projects, third in each of total revenue, total gross profit and total net profit, third in contracted GFA, and fourth in GFA under management, as of or for the year ended Dec 31, 2019, according to CIA. As of June 30, 2020, EPSG had a total GFA under management of ~254.0 mn sqm and contracted GFA of 513.3 mn sqm, serving nearly 2 mn households.

Synergy with the parent group. Evergrande Group is a conglomerate with diversified businesses covering real estate, cultural tourism, health and wellbeing management, and new-energy vehicles. According to CRIC, it was ranked first among property developers in China in terms of attributable contracted sales for three consecutive years since 2017. Despite the COVID-19 pandemic, contracted GFA soared by 38%YoY to 80.86mn sqm in 2020. Leveraging the diverse businesses of Evergrande Group, EPSG's non-residential properties under management will continue to expand in the future.

Third-party growth driven by M&A. EPSG set up the external business development team in June 2020 and has initiated a series of acquisitions since then. As of the Nov 2020, EPSG had entered into agreements to acquire five regional PMCs with an aggregate GFA under management of 7.72mn sqm, all developed by independent third-party developers.

Initiate BUY with TP at HK$ 20.20. Since a substantial proportion of the Group's revenue is determined by PM agreements with regular and predictable cash flow, we employ the DCF method to assess its value. Our DCF-based TP of HK$ 20.20 translates into 47.2x P/E and 14.7x P/B for 2021E. We believe EPSG deserves a premium valuation to its peers, given its sizeable reserved GFA (Contracted GFA minus GFA under management) and higher-than-peer margins.

Financial Summary

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	5,903	7,333	10,546	15,838	22,483
Chg (%,YoY)	34.2	24.2	43.8	50.2	42.0
Core net profit (RMB mn)[1]	239	930	2,606	3,855	5,438
Chg (%,YoY)	124.4	289.0	180.1	47.9	41.1
EPS (RMB)	0.02	0.09	0.24	0.36	0.50
Chg (%,YoY)	124.4	289.0	159.1	47.9	41.1
BVPS (RMB mn)	0.08	0.18	0.88	1.15	1.53
Chg (%,YoY)	43.2	121.1	400.1	30.4	32.9
P/E (x)	534.7	137.45	53.05	35.86	25.42
P/B (x)	160.5	72.59	14.52	11.14	8.38
Core ROE (%)	30.0	52.4	27.3	31.0	32.9
Core ROA (%	4.1	12.5	16.9	19.1	20.4
DPS (RMB)	-	-	0.06	0.09	0.13
Yield (%)	-	-	0.47	0.70	0.98
Net cash (RMBmn)	904	682	9,160	10,445	12,692

Note:

[1] Core net profit= Profit after tax –other expenses and non-recurring items and related tax impact
[2] RMB to HK$= 1.199
Source(s): The Company, ABCI Securities estimates

Company report
Jan 21, 2021

Rating: BUY
TP: HK$ 20.20

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

Share price (HK$)	15.34
Est. share price return	31.7%
Est. dividend yield	0.5%
Est. total return	32.2%
Previous Rating &TP	NA
Previous Report Date	NA

Source(s): Bloomberg , ABCI Securities estimates

Key data

52Wk H/L(HK$)	16.9/7.43
Issued shares (mn)	10,801
Market cap (HK$ mn)	165,687
Avg daily turnover since listing (HK$ mn)	229.02
Major shareholder(s) (%):	
China Evergrande	61.70

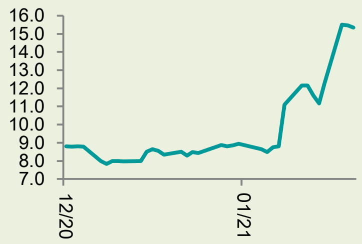
Source(s): Bloomberg , ABCI Securities

Share Performance (%)

	Absolute	Relative*
1-mth	88.9	64.5
3-mth	na	na
6-mth	na	na

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year share performance (HK$)



Source(s): Bloomberg, ABCI Securities

Contents

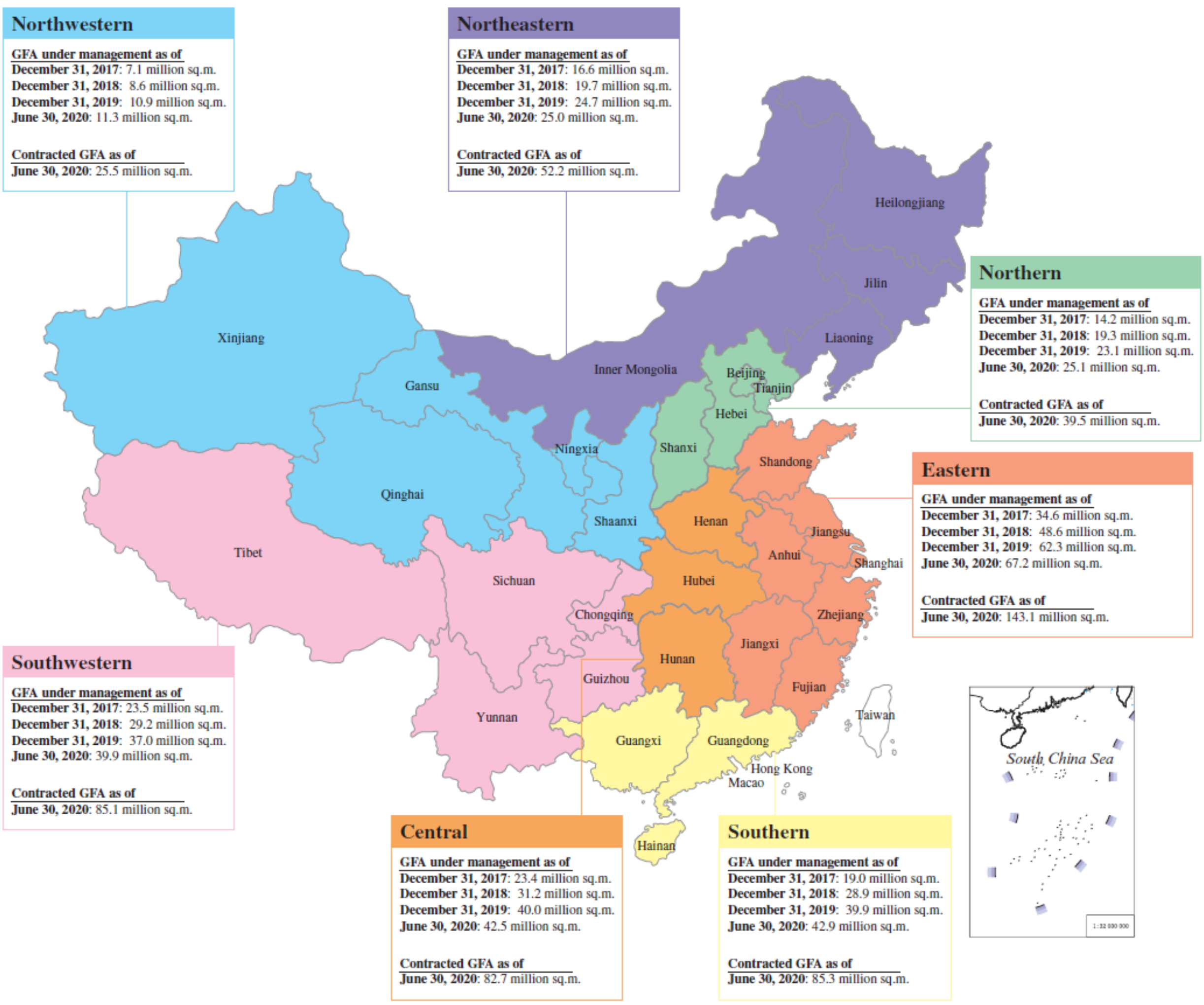
Leading property management player with national coverage

Evergrande Property Services Group (EPSG) is one of the largest comprehensive property management service (PMS) providers in China. According to the CIA, among the Top 100 Property Management Companies (PMCs) in China and as of or for the year ended Dec 31, 2019, EPSG was ranked (a) second by the number of cities with projects; (b) third in each of total revenue, total gross profit, and total net profit; (c) third in contracted GFA, (d) and fourth in GFA under management.

As of June 30, 2020, EPSG was contracted to provide PMS, value-added services to non-property owners (VASNPO) and/or community value-added services (CVAS) to 1,354 projects across 280 cities in 22 provinces, five autonomous regions, four municipalities, and Hong Kong, with a total GFA under management of ~254.0 mn sqm and a contracted GFA of 513.3 mn sqm, serving ~2mn households.

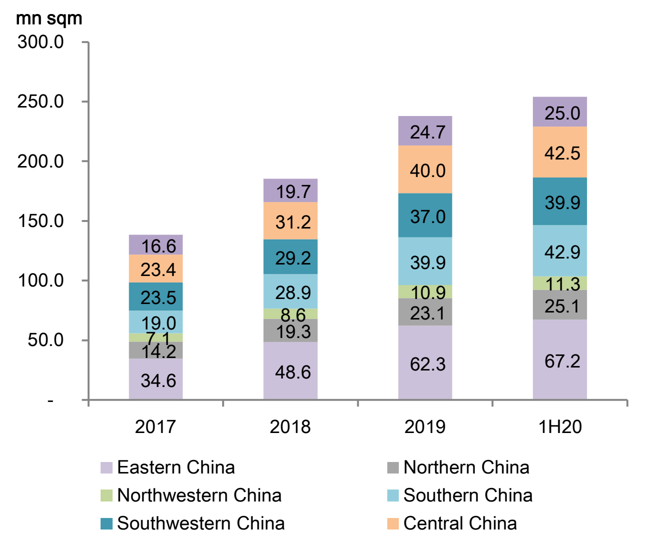
Leveraging the vast landbank of EPSG's parent, Evergrande Group, EPSG's GFA under management rose from 138.3mn sqm in 2017 to 185.4mn sqm in 2018 (+34% YoY) and 237.9mn sqm in 2019 (+28%YoY).

Exhibit 1: EPSG's projects under management in China (Jun 2020)



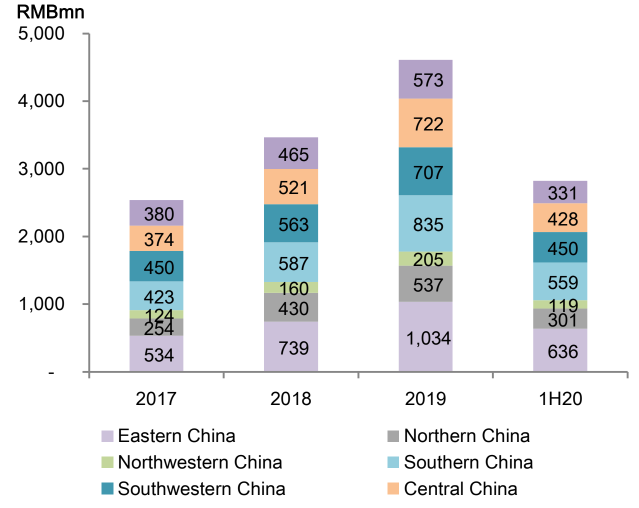
Source(s): The Company, ABCI Securities

Exhibit 2: EPSG's GFA under management by region



Source(s): The Company, ABCI Securities

Exhibit 3: EPSG's revenue from PMS by region



Source(s): The Company, ABCI Securities

A diversified revenue mix

EPSG has three main business lines.

1) Property management services (PMS) - 62.9% of 2019 revenue; 2017-19 CAGR of 35%:

EPSG has been providing PMS since its establishment in 1997.

- ***Butler service***: EPSG's professional butler service personnel are well-educated, with a majority of them holding a bachelor degree or above, which is critical in providing quality services that satisfactorily resolve property owners' various needs;
- ***Security services,*** which includes overall security, fire safety, and parking in properties under management;
- ***Cleaning and greening services***, such as general cleaning, garbage collection, and pest control services;
- ***Common area facility repair and maintenance services,*** such as maintenance work of common area facilities, fire and safety facilities, security facilities, and utility facilities.

2) Value-added services to non-property owners (VASNPO) - 29.3% of 2019 revenue; 2017-19 CAGR of 16%:

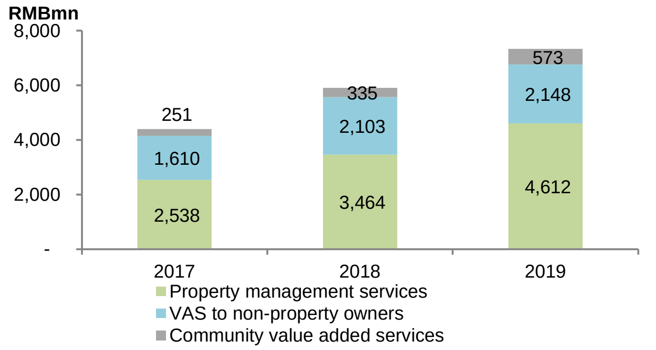
- ***Preliminary PMS:*** *a) Construction Site Management Services*- EPSG manages the construction sites of property developer customers by patrolling the construction sites; *b) Sales Office Management Services*- EPSG offers PMS to sales offices and show flats of property developers, such as security services, cleaning services and visitor reception; *c) Consulting Services*- EPSG advises on the design and positioning of property entrances, security technologies, equipment rooms, intelligent equipment, parking spaces for motor and non-motor vehicles and PM offices
- ***Pre-delivery services:*** EPSG offers a series of services to property developers before they deliver completed properties to property owners, including pre-delivery property cleaning and property inspection
- ***Repair and maintenance services:*** EPSG helps repair and maintain properties during their post-delivery quality warranty periods.

- ***Property transaction assistance services:*** EPSG helps property developers sell parking spaces in exchange for service fees calculated as a pre-agreed percentage of the transaction value.

3) Community value-added services (CVAS) – 7.8% of 2019 revenue; 2017-19 CAGR of 51%

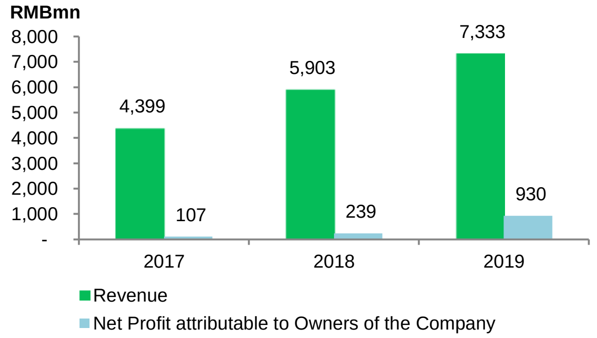
- ***Community operations services:*** EPSG offers a wide range of community operations services leveraging the shared spaces of properties under management for the benefits of property owners and residents, such as (i) community space management services; (ii) group purchase facilitation services; (iii) others, such as offering electric vehicle charging stations for residents.
- ***Community asset management:*** *a) Parking Space Rental Services*- EPSG leases parking spaces from property developers and subleases such spaces to property owners in exchange for monthly rental fees*; b) Second-hand Property Transaction Assistance Services*- EPSG helps property owners sell and rent out their properties and charges service fees; *c) Recreation Center Operations Services*- EPSG operates recreation centers mainly located in properties under management, typically including heated swimming pools, billiard tables, basketball courts, tennis courts, etc.
- ***Community Living Services:*** EPSG offers certain household services to property owners to improve the household living experience and charges a fixed service fee based on the services rendered, such as housekeeping, home furnishing, repair and maintenance of home appliances, furniture, and other in-unit facilities, etc.

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



Source(s): The Company, ABCI Securities

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



Source(s): The Company, ABCI Securities

History and shareholding structure

EPSG has a long and close working relationship with the Evergrande Group. EPSG started its business in 1997 by providing PMS to properties developed by the latter. During the 2017-1H20, EPSG provided PMS to all of the properties developed by the Evergrande Group or its JVs.

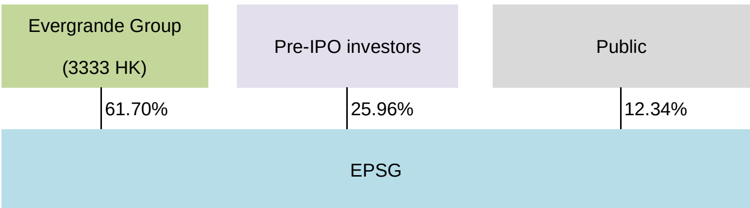
On Aug 13, 2020, each of Ms. Chan Hoi Wan (陳凱韻), Huatai International Greater Bay Area Investment Limited (華泰國際大灣區投資有限公司), SCC Growth VI 2020 B, L.P., CC Eagle Investments Limited, YF Evergreat Property Limited, Image Frame Investment (HK) Limited (意像架構投資(香港)有限公司) and Golden Fortune Holding Limited, China Dragon Limited, Tisé Opportunity Fund I LP, ABCI Global Opportunities SPC – ABCI China Rising Private Equity 3 Segregated Portfolio, Elite Explorer Limited, Advance Power International Limited, Super Brilliant Investments Limited (超智投資有限公司), Well Smart Developments Limited and Treasure Pitcher Limited entered into an investment agreement to acquire a 28.061% stake in EPSG at HK$ 23,500mn. Following EPSG's IPO, Evergrande Group's stake in EPSG was reduced from 71.94% to 61.70% as of Jan 2021.

Exhibit 6: Shareholding structure of EPSG before IPO

Evergrande group (3333 HK)	**71.94%**
Ms. Chan Hoi Wan	5.37%
Huatai International Greater Bay Area Investment Limited	4.78%
Sequoia Capital China Growth	4.12%
CC Eagle Investments Limited	3.58%
YF Evergreat Property Limited	1.79%
Image Frame Investment (HK) Limited and Golden Fortune Holding Limited	1.43%
China Dragon Limited	1.19%
Tisé Opportunity Fund I LP	1.19%
ABCI Global Opportunities SPC – ABCI China Rising Private Equity 3 Segregated Portfolio	1.19%
Elite Explorer Limited and CEL Odyssey Project Fund, L.P.	0.96%
Advance Power International Limited	0.66%
Super Brilliant Investments Limited	0.60%
Well Smart Developments Limited	0.60%
Treasure Pitcher Limited	0.60%
Other investors- total	**28.06%**
Total	**100.00%**

Source(s): The Company, ABCI Securities

Exhibit 7: EPSG's shareholding structure after IPO (Jan 2021)



Source(s): The Company, ABCI Securities

Property management business: two growth drivers

Backed by the largest developer in China

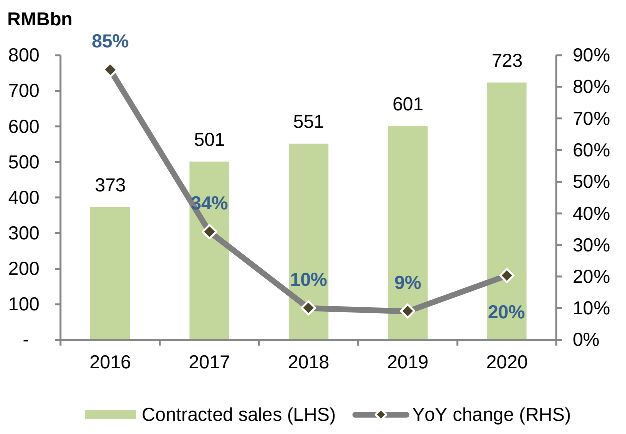
Both projects from Evergrande Group and independent third parties drive EPSG's GFA under management. Managed GFA rose from 138.3mn sqm in 2017 to 185.4mn sqm (+34%YoY) in 2018, 237.9mn sqm (+28%YoY) in 2019 and 254.0mn (+6.8%HoH) in 1H20. In 1H20, Evergrande Group, JVs of Evergrande group, and independent third parties accounted for 98.9%, 0.7%, and 0.4% of total GFA under management or 98.8%, 0.7%, and 0.5% of total PM revenue. As at June 2020, EPSG had a contracted GFA of 513.3mn sqm, implying an undelivered GFA of 259.3mn sqm, equivalent to 102% of GFA under management.

Evergrande Group: Evergrande Group is a conglomerate with diversified businesses covering real estate, cultural tourism, health and wellbeing management, and new-energy vehicles, among others. “Evergrande” is a household brand in China with a global reputation and has been a Fortune Global 500 company for five consecutive years starting from 2016, ranking 152th in 2020. As of June 30, 2020, ~ 99.6% of EPSG’s total GFA under management was developed by the Evergrande Group and the JVs of Evergrande Group.

Despite the COVID-19 pandemic, Evergrande Group’s contracted sales amount increased by 20.3%YoY to RMB 723bn and contracted GFA soared by 38.3%YoY to 80.86mn sqm in 2020. According to the 1H20 interim results, residential land reserves reached ~240mn sqm as of June 30, 2020. According to CRIC, Evergrande Group was ranked first among property developers in China in terms of attributable contracted sales for three consecutive years starting from 2017. Also, the Evergrande Group had 104 urban redevelopment projects as of June 30, 2020, of which 55 were located in Shenzhen.

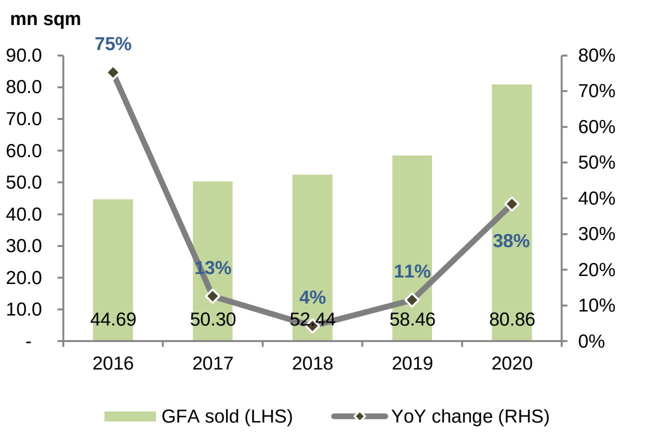
Leveraging the diverse businesses of the Evergrande Group, EPSG will expand its portfolio of non-residential properties under management, particularly theme parks, industrial parks, and healthcare complexes. During 2017-19, EPSG had a success rate of 100% in tender bidding for properties developed by Evergrande Group.

Exhibit 8: Evergrande Group’s contracted sales



Source(s): Evergrande Group, ABCI Securities

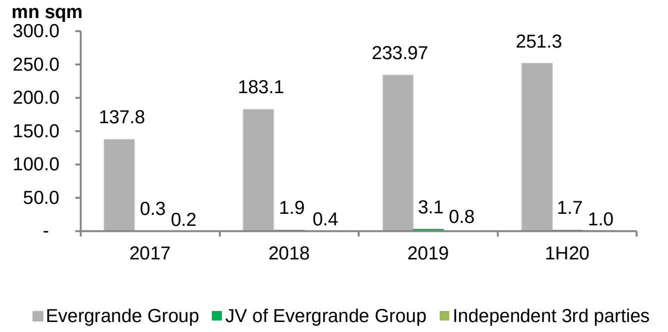
Exhibit 9: Evergrande Group’s contracted GFA



Source(s): Evergrande Group, ABCI Securities

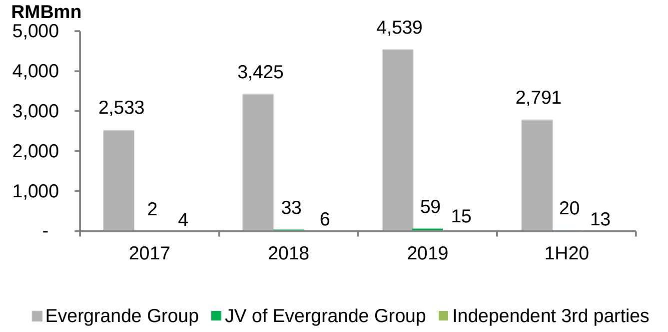
Third-party growth: EPSG has started to provide PMS to properties solely developed by independent third-party property developers since 2017. Properties developed by third-party developers accounted for 0.4% of total GFA under development as of 1H20. In June 2020, EPSG set up an external business development team focusing on developing businesses related to properties developed by independent third-party property developers. After June 30, 2020 and up to the Nov 15, 2020, EPSG had entered into two PMS agreements for projects with an aggregate contracted GFA of 0.5 mn sqm, and five framework PMS agreements for projects with a total GFA of 4.4 mn sqm; these projects are all developed by independent third-party property developers. Besides, since EPSG set up an external business development team in June 2020, it has initiated a series of acquisitions. As of the Nov 15, 2020, EPSG had entered into agreements to acquire five regional PMCs with an aggregate GFA under management of 7.72 mn sqm, all developed by independent third-party property developers.

Exhibit 10: Total GFA under management from projects developed by Evergrande Group, JVs of Evergrande, Group, and independent third-parties



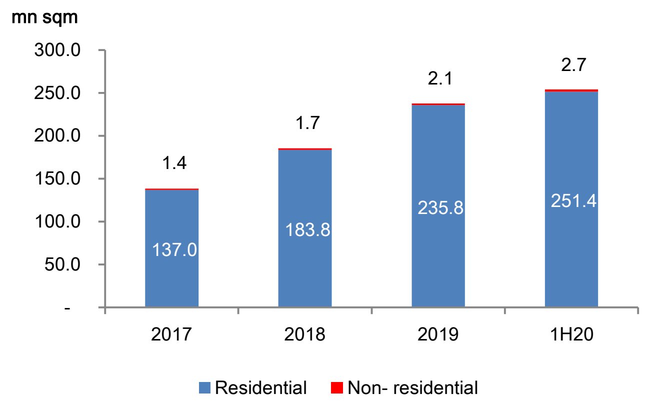
Source(s): The Company, ABCI Securities

Exhibit 11: PM revenue from projects developed by Evergrande Group, JVs of Evergrande Group, and independent third-parties



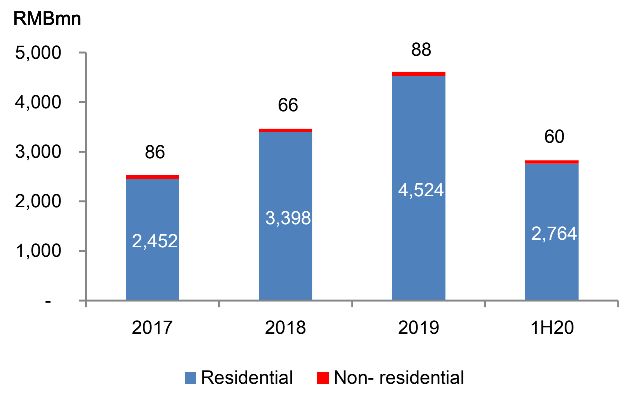
Source(s): The Company, ABCI Securities

Exhibit 12: GFA under management by property type



Source(s): The Company, ABCI Securities

Exhibit 13: PM revenue by property type



Source(s): The Company, ABCI Securities

Impressive margin improvement

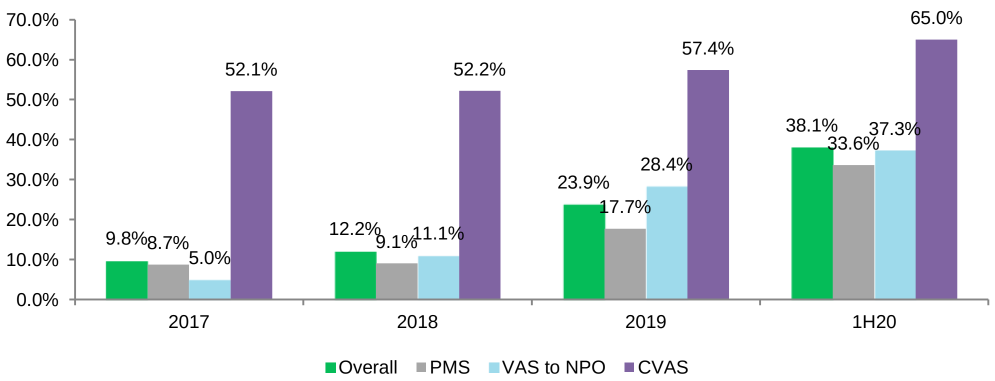
EPSG's gross profit margin from PMS increased steadily from 8.7% in 2017, to 9.1% in 2018, 17.7% in 2019 and 33.6% in 1H20, mainly driven by 1) economies of scale as a result of continuous business growth; 2) higher average management fee, which increased 1.9%- 4.4%YoY during 2017 to 1H20; 3) continuous implementation of cost-control measures. In particular, by improving employee productivity and efficiency through centralizing headcount and salary management at the headquarters level and implementing standardized employee responsibilities and work process, staff cost in the cost of sales fell from 64.8% of total revenue in 2017 to 51.3% in 2019. The increase in gross profit margin for 1H20 can also be attributed to the deduction in, or exemption of, payment of social insurance contributions amid the COVID-19 pandemic.

Exhibit 14: Average property management fee for EPSG

(RMB/sqm/mth)	2017	2018	2019	1H20
Residential properties	**2.02**	**2.11**	**2.14**	**2.19**
YoY change		*4.5%*	*1.4%*	*2.3%*
- Evergrande Group	2.02	2.11	2.13	2.18
YoY change		*4.5%*	*0.9%*	*2.3%*
- JV of Evergrande Group	2.66	2.83	2.97	2.57
YoY change		*6.4%*	*4.9%*	*-12.3%*
- Independent 3rd party developers	2.16	2.31	2.32	2.52
YoY change		*6.9%*	*0.4%*	*10.5%*
Commercial properties	**5.05**	**5.18**	**6.11**	**5.94**
YoY change		*2.6%*	*18.0%*	*1.7%*
Overall	**2.05**	**2.14**	**2.18**	**2.22**
YoY change		*4.4%*	*1.9%*	*2.3%*

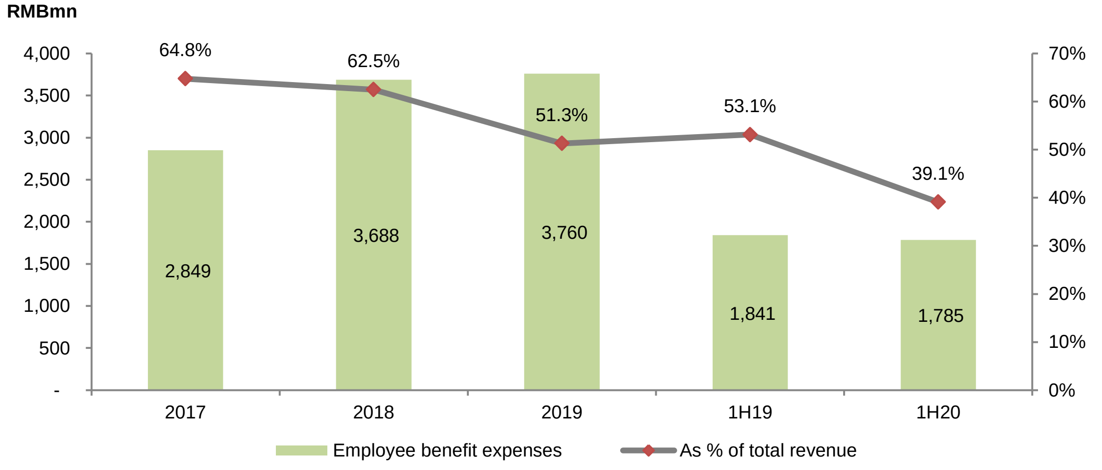
Source(s): The Company, ABCI Securities

Exhibit 15: EPSG's gross profit margin



Source(s): The Company, ABCI Securities

Exhibit 16: Staff cost in cost of sales



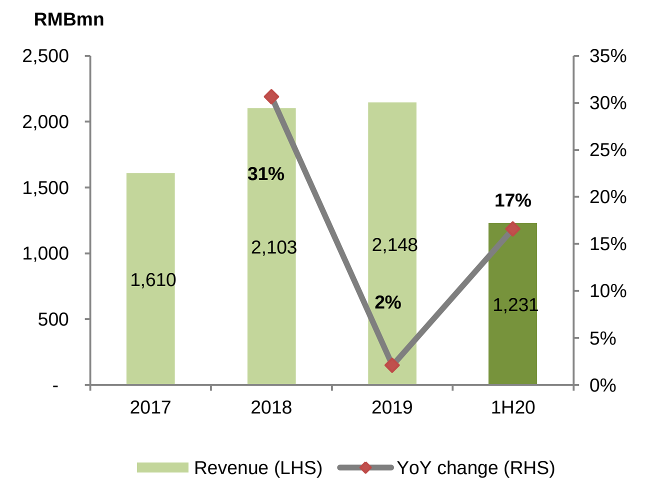
Source(s): The Company, ABCI Securities

Value-added services to non-property owners (VASNPO): Rising presales activities of Evergrande Group drive growth

Driven by growing presales activities of EPSG, revenue from VASNPO increased from RMB 1,610mn in 2017, to RMB 2,148mn in 2019, implying a CAGR of 16% during the period, mainly driven by the introduction of pre-delivery cleaning services and increased revenue from property transaction assistance services for parking spaces. In 1H20, revenue from VASNPO rose by 17%YoY to RMB 1,231mn; in particular, revenue from the repair and maintenance sub-segment jumped RMB 4.7mn in 1H19 to RMB 159mn in 1H20, driven by the higher GFA within the quality warranty periods.

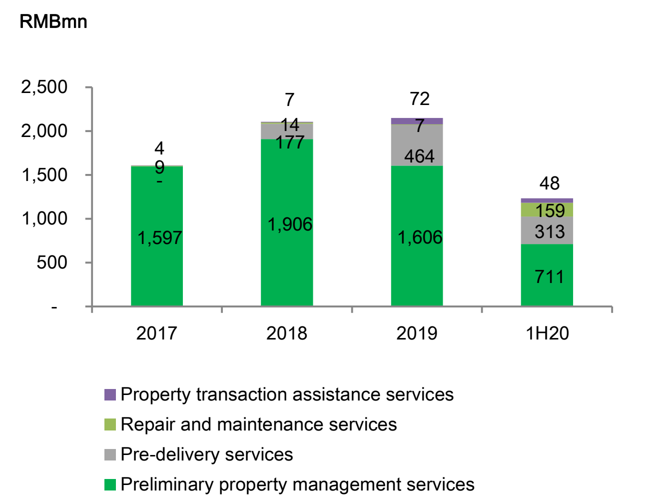
In our view, EPSG's repair and maintenance services, which cater to the maintenance requirements of post-delivery quality warranty periods, will become a key growth driver for VASNPO. EPSG normally receives requests from property owners and residents for repair and maintenance services and dispatches relevant personnel onsite to evaluate and liaise with construction companies to provide the requested services. Under certain circumstances, such as when the construction companies fail to provide the requested services promptly, EPSG may step in and provide the services directly. EPSG charges service fees based on the services provided. In the future, EPSG may consider entering into agreements directly with the construction companies to provide repair and maintenance services on their behalf during the post-delivery warranty periods of properties and charge service fees on a lump-sum basis. In our view, EPSG will have more control over the process under the new model and can respond more promptly to requests.

Exhibit 17: Revenue from VASNPO



Source(s): The Company, ABCI Securities

Exhibit 18: Revenue breakdown of VASNPO



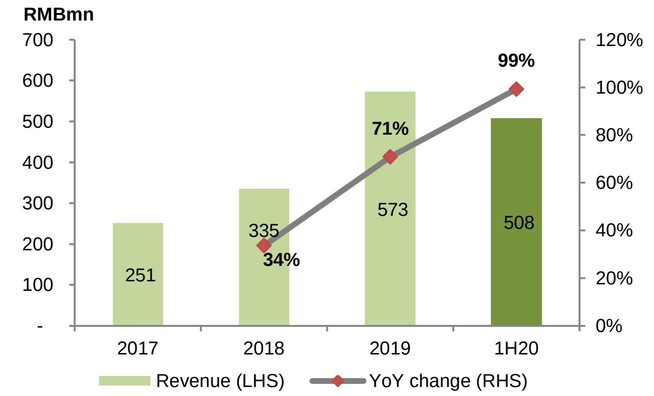
Source(s): The Company, ABCI Securities

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

Driven by the growing number of communities under management, revenue from CVAS increased from RMB 251mn in 2017 to RMB 573mn in 2019, implying a CAGR of 51%, faster than the growth of GFA under management during the same period (31% CAGR). In 2019, revenue jumped 71% YoY to RMB 573mn as a result of 1) introduction of group purchase facilitation services and sale of agricultural products in 2019 (under community operations services sub-segment); 2) enhanced efforts to charge temporary parking fees or monthly rental fees for parking space rental services (under community asset management services sub-segment). In 1H20, revenue from CVAS soared 99% YoY to RMB 508mn, mainly driven by increased demand for the group purchase facilitation services due to the COVID-19 pandemic.

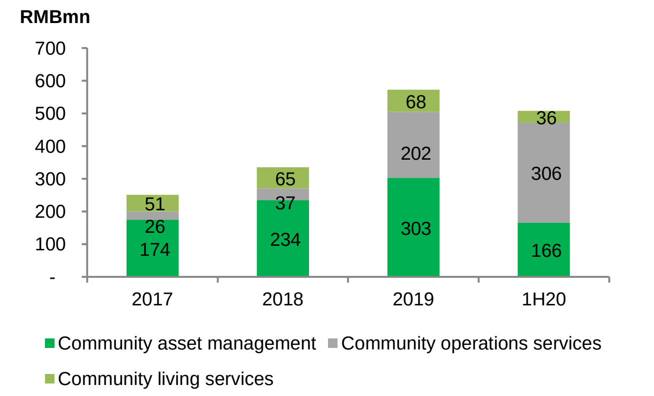
CVAS, as a percentage of total revenue, increased from 7.8% in 2019 to 11.1% in 1H20, in-line with other large-cap PMCs such as Country Garden Services (CGS, 6098 HK) or A-Living (3319 HK), but much lower than the 17.2% for Greentown Services (2869 HK) and 21.1% for Poly Property Services (6049 HK). Benefiting from Evergrande Group's electric vehicle (EV) business, EPSG's EV charging stations in the communities could become another new growth driver.

Exhibit 19: Revenue from CVAS



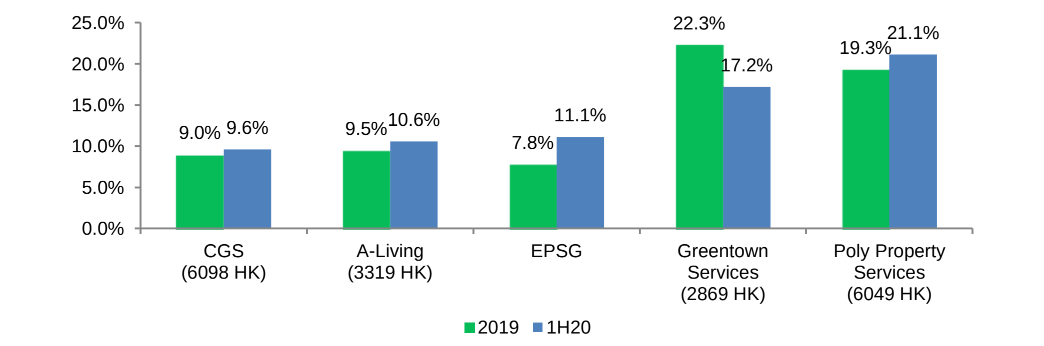
Source(s): The Company, ABCI Securities

Exhibit 20: Revenue breakdown of CVAS



Source(s): The Company, ABCI Securities

Exhibit 21: CVAS as a percentage of total revenue: EPSG vs. peers



Source(s): The Company, CGS, A-Living, Greentown Services, Poly Property Services, ABCI Securities

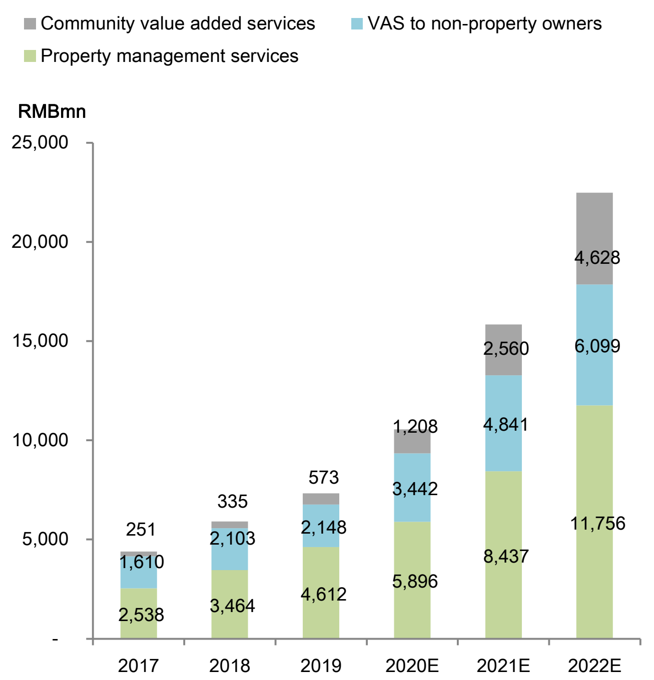
Earnings forecasts

Core profit to expand at 46% CAGR over 2020E-22E

We expect revenue to grow at a 46% CAGR in 2020E-22E on expanding GFA under management (37% CAGR in our forecast). In particular, we expect projects from Evergrande Group and third-party tendering would increase residential GFA under management by 58mn/89mn/96mn sqm in 2020E/21E/22E; meanwhile, M&A would contribute another 10mn/40mn/40mn sqm in the same periods.

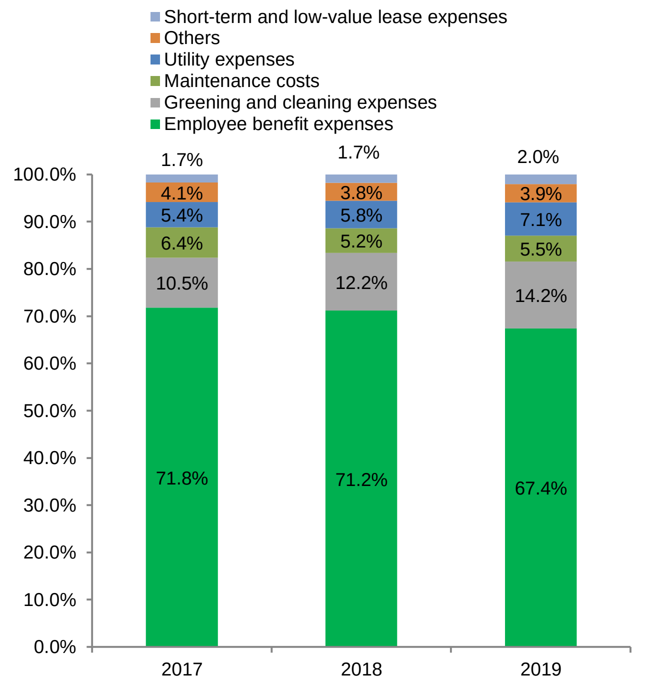
Gross profit margin would be at 35-37% in 2020E-22E; core net margin would remain stable at 24-25%. Core profit would jump from RMB 2,606mn in 2020E to RMB 5,438mn in 2022E, representing a 46% CAGR in 2020E-22E.

Exhibit 22: EPSG's revenue breakdown



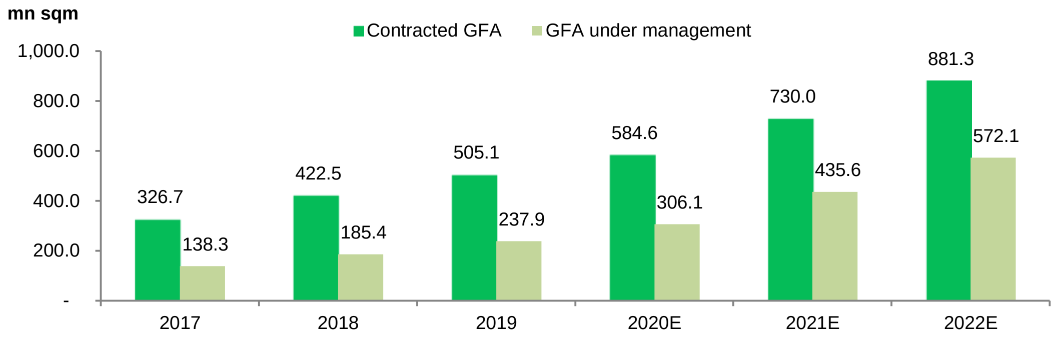
Source(s): The Company, ABCI Securities estimates

Exhibit 23: EPSG's cost of sales breakdown



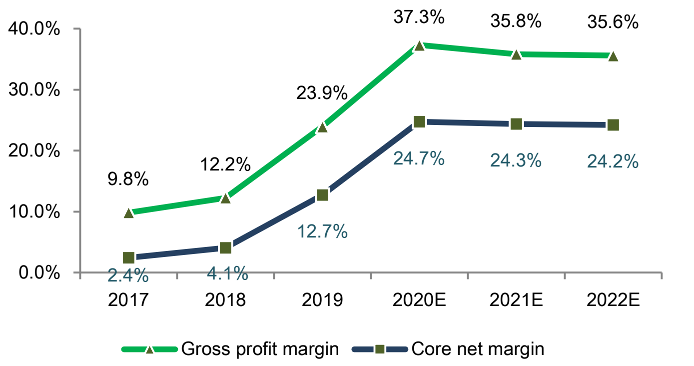
Source(s): The Company, ABCI Securities

Exhibit 24: EPSG's GFA under management and contracted GFA



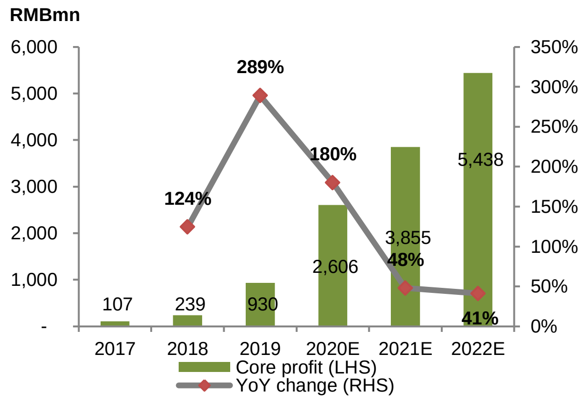
Source(s): The Company, ABCI Securities estimates

Exhibit 25: Gross profit margin and core net margins



Source(s): The Company, ABCI Securities estimates

Exhibit 26: EPSG's core profit

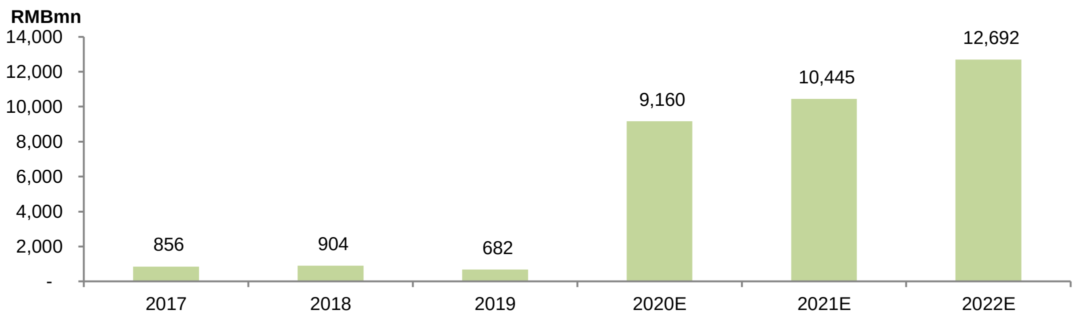


* Core net profit = profit after tax – other expenses and non-recurring items and related tax impact
Source(s): The Company, ABCI Securities estimates

A net-cash company

EPSG has been in a net cash position since 2017. As at June 2020, the trade receivable balance due from the related party was RMB 3,912.6mn, representing 45.7% of total assets. With a robust cash flow from operation and faster repayment of receivables from related parties, we expect net cash balance to reach RMB 9.16bn in 2020E.

Exhibit 27: Net cash balance



* Net cash= total cash minus gross debt
Source(s): The Company, ABCI Securities estimates

Exhibit 28: EPSG's 1H20 results

P&L	1H20	1H19	*YoY Chg*
	RMBmn	RMBmn	*(%)*
Revenue	**4,564**	**3,466**	***32***
Cost of Sales	(2,826)	(2,669)	***6***
Gross Profit	**1,738**	**797**	***118.1***
Gross Profit Margin (%)	***38.1***	***23.0***	***+15.1ppt***
Selling and distribution costs	-	-	*na*
Administrative expense	(224)	(232)	*(3)*
EBIT	**1,513**	**565**	***168.1***
EBIT Margin (%)	***33.2***	***16.3***	***+16.9ppt***
Other income	46	17	*180.9*
Other losses-net	(0)	(0)	*212.9*
Net impairment losses recognized on financial assets	(47)	(26)	*82.8*
Interest income	-	-	*na*
Finance cost	(12)	(17)	*(25.6)*
Profit before tax	**1,500**	**539**	*178.5*
Tax	(353)	(131)	*168.5*
Profit after tax	**1,148**	**407.3**	***181.8***
Minority Interest	1	0	*na*
Net profit	**1,149**	**407**	***181.9***
Net margin(%)	***25.2***	***11.8***	***+13.4ppt***

Balance sheet	Jun-20	Dec-19	*HoH chg*
	RMBmn	RMBmn	*(%)*
Gross debt	3	3	-
Cash	741	684	*8*
Net debt	**738**	**682**	*8*

	1H20	1H19	*YoY Chg*
	RMBmn	RMBmn	*(%)*
Total revenue	**4,564**	**3,466**	***31.7***
PMS	2,824	2,155	*31.1*
VASNPO	1,231	1,056	*16.6*
CVAS	508	255	*99.3*
Gross profit margin	**38.1%**	**23.0%**	***15.1%***
PMS	33.6%	16.7%	*16.8%*
VASNPO	37.3%	27.8%	*9.5%*
CVAS	65.0%	55.8%	*9.2%*

Operating statistics	1H20	FY19	*HoH (%)*
GFA Under management	254.0	237.9	*6.8*
Contracted GFA	513.3	505.1	*1.6*
Evergrande	251.3	234.0	*7.4*
Evergrande - JV	1.7	3.1	*(46.0)*
Independent 3rd party	1.0	0.8	*24.6*
Total- GFA under management	**254.0**	**237.9**	***6.8***
Residential	251.3	235.8	*6.6*
Commercial	2.7	2.1	*29.9*
Total- GFA under management	**254.0**	**237.9**	***6.8***

* Net cash= total cash minus gross debt
Source(s): The Company, ABCI Securities estimates

Initiate BUY with TP HK$20.20 based on DCF

DCF valuation based on a 10% WACC

In our view, a substantial proportion of the Group's revenue is determined by PM agreement, which generates recurrent income in the long term. As such, we believe the DCF method would offer a more accurate assessment of the Group's long-term value given its high cash flow visibility and robust revenue/net profit growth.

The DCF-derived model TP for EPSG (with a WACC of 10% and 1% terminal growth) is HK$ 20.20, which translates into 47.2x P/E and 14.7x P/B for 2021E.

Exhibit 29: EPSG's DCF valuation: TP sensitivity to changes in WACC and terminal growth

		WACC				
Terminal growth		**6.0%**	**7.0%**	**8.0%**	**9.0%**	**10.0%**
1.0%		65.40	54.10	46.10	40.30	35.80
2.0%	**TP (HK$)**	76.30	60.70	50.50	43.20	37.90
3.0%		94.50	70.70	56.50	47.20	40.60
Variance from base case		**WACC**				
Terminal growth		**8.0%**	**9.0%**	**10.0%**	**11.0%**	**12.0%**
1.0%		30%	7%	-9%	-20%	-29%
2.0%	**change (%)**	51%	20%	0%	-14%	-25%
3.0%		87%	40%	12%	-7%	-20%

Source(s): ABCI Securities estimates

Comparative approach

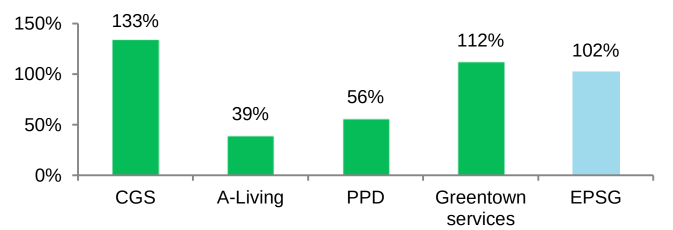
We consider the listed large-cap PMCs (with GFA under management >200mn sqm) to be EPSG's comparable peers. These include Country Garden Services (CGS, 6098 HK), A-Living (3319 HK), Poly Property Services (PPS, 6049 HK) and Greentown Services (GTS, 2869 HK). EPSG is currently trading at 35.9x 2021 PE, much lower than large cap peers' average of 41.4x. In our view, EPSG deserves a premium over its listed peers and should trade at higher end of peers' trading range of 17.2x-61.0x because of (1) its sizeable reserved GFA (contracted GFA minus GFA under management); 2) higher-than-peer margins and earnings growth.

Exhibit 30: Valuation of HK-listed PMCs operating in China

			Mkt Cap	Share Price	Performance			Valuation								
		Ticker			3M	YTD	2020	P/E			Yield (%)			P/B		
			HK$ bn	(HK$)	% Chg	% Chg	% Chg	2019A	2020E*	2021E*	2019A	2020E*	2021E*	2019A	2020E*	2021E*
	Large PMCs (Market cap >HK$30bn)															
1	Country Garden Services	6098 HK	201.3	68.65	39	31	101	71.5	63.2	44.7	0.3	0.4	0.6	24.1	18.0	13.0
2	EPSG	6666 HK	165.8	15.34	na	72	2	137.4	53.1	35.9	0.0	0.5	0.7	72.6	14.5	11.1
3	CR MIXC	1209 HK	105.0	46.00	na	28	61	266.2	126.7	61.0	0.0	0.3	0.5	84.9	6.7	6.3
4	Sunac Services	1516 HK	75.9	24.45	na	42	48	174.6	102.0	51.1	0.0	0.3	0.7	247.6	8.8	7.7
5	A-Living	3319 HK	49.0	36.75	8	7	29	33.7	23.7	17.2	1.5	2.1	2.9	6.6	5.8	5.0
6	Ever Sunshine	1995 HK	40.5	24.25	79	42	224	136.2	92.6	56.7	0.2	0.3	0.5	28.9	23.3	17.1
7	Poly Property Development	6049 HK	38.5	69.55	24	14	31	64.1	45.6	35.8	0.4	0.5	0.7	5.1	4.7	4.3
8	Greentown Services	2869 HK	31.6	9.81	7	3	13	37.7	37.2	28.8	0.9	1.0	1.3	4.0	4.5	4.1
	Small/mid-sized PMCs (Market cap <HK$30bn)															
1	S-Enjoy	1755 HK	19.5	23.80	26	34	47	58.4	37.2	24.7	0.9	1.4	2.1	17.6	12.7	9.6
2	KWG Living	3913 HK	17.8	8.80	NA	40	(20)	64.1	38.2	24.1	0.0	0.8	1.2	31.2	4.8	4.2
3	Powerlong CM	9909 HK	16.6	25.70	12	4	157	64.2	50.5	34.2	0.9	1.0	1.1	8.4	7.8	6.8
4	CCNL	9983 HK	9.7	7.75	(3)	(22)	(4)	25.1	19.9	12.7	0.0	1.5	2.4	15.8	3.0	2.6
5	Languang Justbon	2606 HK	6.4	35.75	(10)	2	(28)	12.3	9.2	7.0	2.4	3.2	4.3	2.2	1.9	1.6
6	Aoyuan Healthy	3662 HK	4.2	5.78	(0)	16	(14)	20.3	14.7	9.6	1.9	2.7	3.9	4.1	3.5	2.7
7	Kaisa Prosperity	2168 HK	3.5	22.90	4	11	(8)	13.9	12.6	9.1	2.4	3.1	4.3	2.4	2.5	2.1
	PMC Avg				**14**	**23**	**39**	**72.6**	**45.7**	**28.6**	**0.7**	**1.3**	**1.8**	**33.7**	**7.9**	**6.3**
	- Large PMCs				**32**	**30**	**64**	**115.2**	**68.0**	**41.4**	**0.4**	**0.7**	**1.0**	**59.2**	**10.8**	**8.6**
	- Small/mid-sized PMCs				**3**	**15**	**14**	**36.4**	**26.3**	**17.9**	**1.2**	**1.8**	**2.6**	**11.6**	**5.7**	**4.6**

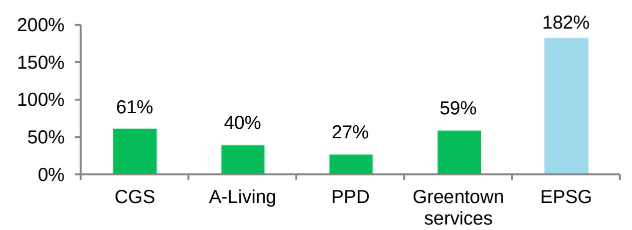
*Bloomberg's consensus forecast
Source(s): Bloomberg, ABCI Securities

Exhibit 31: Reserved GFA as % of GFA under management (1H20)



Source(s): The Company, Country Garden Services, A-Living, Poly Property Services, and Greentown Services, ABCI Securities

Exhibit 32: 1H20 core profit YoY growth



Source(s): The Company, Country Garden Services, A-Living, Poly Property Services, and Greentown Services, ABCI Securities

Exhibit 33: FY19 peer comparison by GFA (large players, GFA under management > 200mn sqm)

	CGS 6098 HK			A-Living 3319 HK			Poly Property Services 6049 HK			Greentown Services 2869 HK			EPSG		
	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg
GFA comparison															
GFA under management (mn sqm)	**182**	**276**	**52%**	**138**	**234**	**69%**	**191**	**287**	**51%**	**170**	**212**	**25%**	**185**	**238**	**28%**
- Residential	173	263	52%	83	138	65%	116	139	20%	133	167	26%	184	236	28%
- Non-residential	9	14	52%	55	96	76%	75	148	98%	37	45	20%	2	2	25%
% as total GFA under management															
- Residential	95%	95%	0%	60%	59%	-2%	61%	48%	-12%	78%	79%	1%	99%	99%	0%
- Non-residential	5%	5%	0%	40%	41%	2%	39%	52%	12%	22%	21%	-1%	1%	1%	0%
GFA under management (mn sqm)	**NA**	**NA**		**138**	**234**	**69%**	**191**	**287**	**51%**	**NA**	**NA**		**185**	**238**	**28%**
- Developed by major shareholders/parent group				53	62	18%	109	132	20%				185	237	28%
- Third parties				85	172	101%	81	155	91%				0	1	105%
GFA under management (%)															
- Developed by major shareholders/parent group	NA	NA		38%	27%	-12%	57%	46%	-12%	NA	NA		100%	100%	0%
- Third parties	NA	NA		62%	73%	12%	43%	54%	12%	NA	NA		0%	0%	0%
Contracted GFA (mn sqm)	**505**	**685**	**36%**	**230**	**356**	**55%**	**362**	**498**	**38%**	**363**	**446**	**23%**	**423**	**505**	**20%**

Source(s): The Company, Country Garden Services, A-Living, Poly Property Services, and Greentown Services, ABCI Securities

Exhibit 34: FY19 peer comparison by financial metric (large players, GFA under management > 200mn sqm)

	CGS 6098 HK			A-Living 3319 HK			Poly Property Services 6049 HK			Greentown Services 2869 HK			EPSG		
	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg
Financials comparison															
Revenue (RMBmn)	**4,675**	**9,620**	**106%**	**3,377**	**5,127**	**52%**	**4,229**	**5,967**	**41%**	**6,710**	**8,582**	**28.0%**	**5,903**	**7,333**	**24.0%**
- PM	3,445	5,817	69%	1,625	2,830	74%	2,910	3,844	32%	4,461	5,452	22.0%	3,464	4,612	33.0%
- VAS to NPO and property agency	791	1,422	80%	1,463	1,812	24%	697	969	39%	939	1,217	30.0%	2,103	2,148	2.0%
- CVAS	417	865	107%	289	485	68%	623	1,154	85%	1,310	1,913	46.0%	335	573	71.0%
- Others	21	1,515	6950%												
% as total revenue															
- PM	74%	60%	(13.0%)	48%	55%	7.0%	69%	64%	(4%)	66%	64%	(3.0%)	59%	63%	4.0%
- VAS to NPO and property agency	17%	15%	(2.0%)	43%	35%	(8.0%)	16%	16%	0%	14%	14%	0.0%	36%	29%	(6.0%)
- CVAS	9%	9%	0.0%	9%	9%	1.0%	15%	19%	5%	20%	22%	3.0%	6%	8%	2.0%
- Others	0%	16%	15.0%												
Gross profit (RMBmn)	**1,762**	**3,052**	**73%**	**1,290**	**1,883**	46.0%	**851**	**1,211**	**42%**	**1,198**	**1,547**	29.0%	**723**	**1,755**	143.0%
Gross Profit Margin (%)	37.7%	31.7%	(5.9%)	38.2%	36.7%	(1.0%)	20.1%	20.3%	0.2%	17.8%	18.0%	0.2%	12.2%	23.9%	11.7%
- PM	31.9%	30.2%	(1.7%)	27.4%	25.3%	(2.1%)	14.1%	14.2%	0.1%	11.4%	11.4%	0.0%	5.3%	11.1%	5.8%
- VAS to NPO and property agency	48.1%	41.0%	(7.1%)	47.7%	49.8%	2.1%	20.1%	20.3%	0.2%	38.0%	33.6%	(4.4%)	11.1%	28.4%	17.3%
- CVAS	66.1%	66.2%	0.1%	50.9%	54.4%	3.5%	48.4%	40.7%	-7.6%	25.4%	27.0%	1.7%	52.2%	57.4%	5.2%
- Others	36.6%	9.3%	(27.4%)												
Core net profit* (RMBmn)	**865**	**1,671**	**93.0%**	**778**	**1,212**	**56.0%**	**334**	**491**	**47%**	**399**	**520**	**30.0%**	**239**	**930**	**289.0%**
Net margin (%)	18.5%	17.4%	(1.1%)	23.0%	23.6%	0.6%	7.9%	8.2%	0.3%	5.9%	6.1%	0.0%	4.1%	12.7%	8.6%
	Dec18	**Dec19**	**YoY chg**	**Dec18**	**Dec19**	**YoY chg**	**Dec18**	**Dec19**	**YoY chg**	**Dec18**	**Dec19**	**YoY chg**	**Dec18**	**Dec19**	**YoY chg**
Gross debt (RMBmn)	-	-	NA	-	21	NA	-	-	NA	-	-	NA	150	3	(98.0%)
Cash (RMBmn)	3,874	6,926	79.0%	4,809	4,213	(12.0%)	1,812	6,509	259%	2,329	2,919	25.0%	1,054	684	(35.0%)
Net Cash (RMBmn)	**3,874**	**6,926**	**79.0%**	**4,809**	**4,191**	**(13.0%)**	**1,812**	**6,509**	**259%**	**2,329**	**2,919**	**25.0%**	**904**	**682**	**(25.0%)**
Total Equity (RMBmn)	2,330	5,680	144.0%	5,510	6,506	18.0%	693	5,122	639%	2,405	2,954	23.0%	797	1,774	123.0%

* Core profit= Net profit attributable to shareholders of the company – Other losses and gains x 0.75
Source(s): The Company, Country Garden Services, A-Living, Poly Property Services, and Greentown Services, ABCI Securities

Exhibit 35: 1H20 peer comparison by GFA (large players, GFA under management > 200mn sqm)

	CGS 6098 HK			A-Living 3319 HK			Poly Property Services 6049 HK			Greentown Services 2869 HK			EPSG		
	1H19	1H20	YoY chg	1H19	1H20	YoY chg	1H19	1H20	YoY chg	1H19	1H20	YoY chg	FY19	1H20	HoH chg
GFA comparison															
GFA under management (mn sqm)	**217**	**319**	**47%**	**211**	**353**	**67%**	**260**	**317**	**22%**	**184**	**226**	**23%**	**238**	**254**	**7%**
- Residential	NA	NA		124	145	17%	121	150	24%	145	176	22%	236	251	7%
- Non-residential	NA	NA		87	208	139%	139	167	20%	40	50	27%	2	3	30%
% as total GFA under management															
- Residential	NA	NA		59%	41%	-18%	47%	47%	1%	79%	78%	-1%	99%	99%	0%
- Non-residential	NA	NA		41%	59%	18%	53%	53%	(1%)	22%	22%	1%	1%	1%	0%
GFA under management (mn sqm)	**217**	**319**	**47%**	**211**	**353**	**67%**	**260**	**317**	**22%**	**NA**	**NA**		**238**	**254**	**7%**
- Developed by major shareholders/parent group	172	234	35%	58	67	15%	112	137	22%				237	253	7%
- Third parties	44	86	93%	153	286	87%	148	180	21%				1	1	NA
GFA under management (%)															
- Developed by major shareholders/parent group	80%	73%	(6%)	28%	19%	(9%)	43%	43%	0%	NA	NA		100%	100%	0%
- Third parties	20%	27%	6%	72%	81%	9%	57%	57%	0%	NA	NA		0%	0%	0%
Contracted GFA (mn sqm)	**584**	**746**	**28%**	**325**	**491**	**51%**	**455**	**493**	**8%**	**391**	**478**	**22%**	**505**	**513**	**2%**

Source(s): The Company, Country Garden Services, A-Living, Poly Property Services, and Greentown Services, ABCI Securities

Exhibit 36: 1H20 peer comparison by financial metric (large players, GFA under management > 200mn sqm)

	CGS 6098 HK			A-Living 3319 HK			Poly Property Services 6049 HK			Greentown Services 2869 HK			EPSG		
	1H19	1H20	YoY chg	1H19	1H20	YoY chg	1H19	1H20	YoY chg	1H19	1H20	YoY chg	1H19	1H20	YoY chg
Financials comparison															
Revenue (RMBmn)	**3,516**	**6,271**	**78%**	**2,241**	**4,002**	**79%**	**2,822**	**3,601**	**28%**	**3,663**	**4,400**	**20%**	**3,466**	**4,564**	**32%**
- PM	2,542	3,999	57%	1,227	2,620	113%	1,823	2,286	25%	2,452	3,021	23%	2,155	2,824	31%
- VAS to NPO and property agency	596	674	13%	808	959	19%	459	554	21%	521	622	19%	1,056	1,231	17%
- CVAS	307	603	96%	206	423	105%	540	761	41%	690	757	10%	255	508	99%
- Others	71	995	1307%												
% as total revenue															
- PM	72%	64%	-9%	55%	65%	11%	65%	63%	-1%	67%	69%	2%	62%	62%	0%
- VAS to NPO and property agency	17%	11%	-6%	66%	37%	-29%	16%	15%	-1%	14%	14%	0%	30%	27%	-3%
- CVAS	9%	10%	1%	26%	44%	19%	19%	21%	2%	19%	17%	-2%	7%	11%	4%
- Others	2%	16%	14%												
Gross profit (RMBmn)	**1,378**	**2,333**	**69%**	**829**	**1,275**	**54%**	**667**	**734**	**10%**	**706**	**905**	**28%**	**797**	**1,738**	**118%**
Gross Profit Margin (%)	39.2%	37.2%	(2.0%)	37.0%	31.9%	(5.0%)	23.6%	20.4%	(3.2%)	19.3%	20.6%	1.3%	23.0%	38.1%	15.1%
- PM	35.7%	38.1%	2.4%	26.6%	21.9%	(4.6%)	22.5%	23.8%	1.3%	11.9%	14.3%	2.4%	10.4%	20.8%	10.4%
- VAS to NPO and property agency	46.3%	42.3%	(4.0%)	49.2%	48.9%	(0.4%)	30.6%	35.5%	4.9%	38.1%	37.0%	(1.1%)	27.8%	37.3%	9.5%
- CVAS	65.9%	62.8%	(3.1%)	51.4%	55.0%	3.6%	55.8%	61.7%	6.0%	31.3%	32.1%	0.8%	55.8%	65.0%	9.2%
- Others	(11.1%)	14.6%	25.7%												
Core net profit* (RMBmn)	**817**	**1,315**	**61%**	**541**	**758**	**40%**	**314**	**400**	**27%**	**234**	**374**	**59%**	**407**	**1,149**	**182%**
Net margin (%)	23.2%	21.0%	(2.3%)	24.2%	18.9%	(5.2%)	11.1%	11.1%	0.0%	6.4%	8.5%	2%	11.8%	25.2%	13.4%
	Dec19	**Jun 20**	**HoH chg**	**Dec19**	**Jun 20**	**HoH chg**	**Dec19**	**Jun 20**	**HoH chg**	**Dec19**	**Jun 20**	**HoH chg**	**Dec19**	**Jun 20**	**HoH chg**
Gross debt (RMBmn)	-	3,391	NA	21	355	NA	-	-	NA	-	-	NA	3	3	
Cash (RMBmn)	6,926	9,950	44%	4,213	4,909	17%	6,509	7,245	11%	2,329	2,919	25%	684	741	8%
Net Cash (RMBmn)	**6,926**	**6,559**	**(5%)**	**4,191**	**4,554**	**9%**	**6,509**	**7,245**	**11%**	**2,329**	**2,919**	**25%**	**682**	**738**	**8%**
Total Equity (RMBmn)	5,680	6,786	19%	6,506	7,616	17%	5,122	5,964	16%	2,405	2,954	23%	1,774	2,882	62%

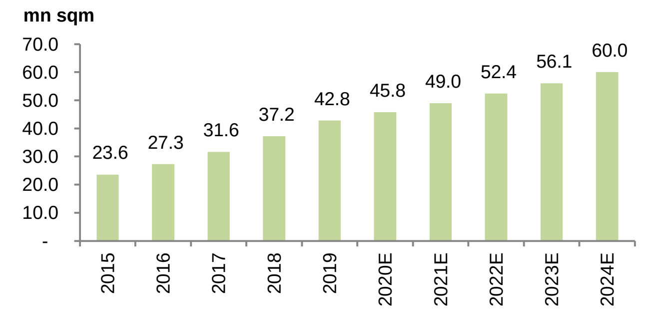
* Core profit= Net profit attributable to shareholders of the company – Other losses and gains x 0.75
Source(s): The Company, Country Garden Services, A-Living, Poly Property Services, and Greentown Services, ABCI Securities

Industry analysis

Following the rapid urbanization and continuous growth in per capita disposable income in China, the total market size, in terms of the aggregate GFA under management by all PMCs in China's property management industry, reached 23.9 bn sqm as of Dec 31, 2019, according to CIA. In particular, the GFA and number of properties managed by the top 100 PMCs have increased rapidly. The average total GFA under management by the top 100 PMCs increased from ~23.6 mn sqm as of Dec 31, 2015 to 42.8 mn sqm as of Dec 31, 2019, representing a CAGR of ~16.0%.

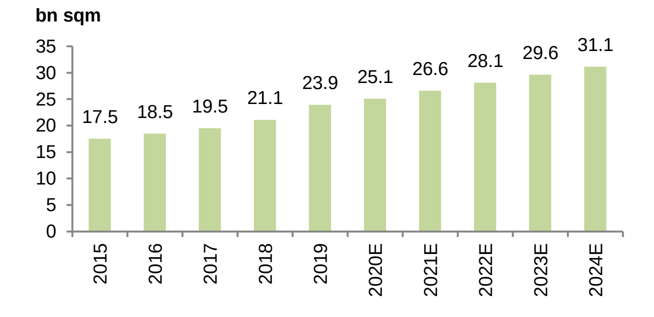
As a result of the growth in GFA and number of properties under management, the average revenue of the top 100 PMCs increased from ~RMB 540.8mn in 2015 to ~RMB 1,040.2 mn in 2019,representing a CAGR of ~17.8%.

Exhibit 37: Total GFA under management of the property management industry in China



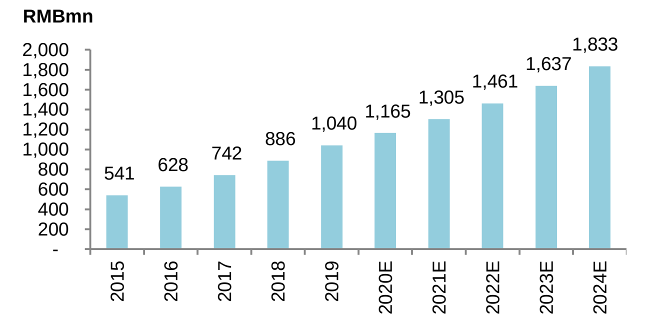
Source(s): CIA, ABCI Securities

Exhibit 38: Average GFA under Management for the Top 100 Property Management Companies



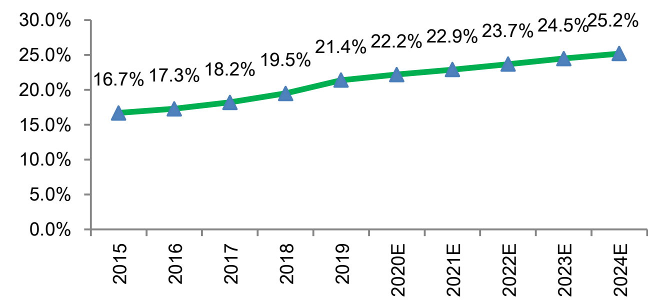
Source(s): CIA, ABCI Securities

Exhibit 39: Average Revenue of the Top 100 Property Management Companies



Source(s): CIA, ABCI Securities

Exhibit 40: Revenue from VAS as % of total revenue among Top 100 Property Management Companies



Source(s): CIA, ABCI Securities

Notice on Enhancing and Improving Residential Property Management (“关于加强和改进住宅物业管理工作的通知”)

- **A boost to CVAS business.** The latest Notice announced in 2021 encourages PMCs to extend to areas such as elderly care, childcare, housekeeping, culture, health, housing brokerage, and express delivery. While many PMCs have already developed a wide spectrum of CVAS, many act as mere service platforms connecting to third-party suppliers. The new policy provide incentives for PMCs to set up their own teams to provide such services directly, thus the scale of CVAS for PMCs may increase significantly in the future. Nonetheless, at the current stage, we think larger names, such as Country Garden Services and EPSG, can compete with existing leading industry players in these services.

- **Management fee adjustment:** The Notice states that property management fee can be adjusted according to service standards and price indices. Management fee could be set by a predetermined formula incorporating other factors such as CPI and wages growth in the future, replacing the complicated process involving approval from the home owners association currently in use. The policy also promotes commission-based contracts instead of the lump-sum ones, which reduce the risk of margin decline as PMCs will only book a percentage of management fee as revenue while operating cost will be borne by home owners.

Risk factors

- **2.2% of EPSG's GFA under management will expire by 2021**
  About 2.2% of EPSG's GFA under management will expire by 2021. Failure to renew these contracts may lead to declines in PM revenue. 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 has been set up and a new PMS agreement between such property owners' association and a PMC becomes effective. Our revenue forecasts are based on the assumption that these expiring contracts would be renewed - failure to do so would imply overestimation.

Exhibit 41: Expiration schedule of properties developed by EPSG (June 2020)

	GFA under management	
	mn sqm	%
Without fixed terms	474.2	92.4%
Year ending Dec 31, 2020	3.1	0.6%
Year ending Dec 31, 2021	8.0	1.6%
Year ending Dec 31, 2022 and beyond	27.9	5.4%
Total	**513.3**	**100.0%**

Source(s): The Company, ABCI Securities

- **Loss-making contracts.** In 2017, 2018, 2019, and 1H20, EPSG incurred losses of RMB 114.8mn, RMB 112.3 mn, RMB 59.0 mn, and RMB 14.4 mn, with respect to 96, 84, 48, and 24 properties under management. Revenue from PMS from such loss-making properties was ~ RMB 573.7 mn, RMB 501.8 mn, RMB 227.4 mn, and RMB 45.1 mn in 2017, 2018, 2019, and 1H20, representing 13.0%, 8.5%, 3.1%, and 1.0% of total revenue for the same periods, respectively.

- **Mounting receivable balance.** In 2017-19, EPSG's trade receivable balance increased from RMB 2,054mn in 2017 to RMB 3,141mn in 2018 (+53%YoY), RMB 5,257mn in 2019 (+67%YoY) and RMB 6,366mn in 1H20 (+21%HoH)**.** Deferred repayment may result in possible impairments and write-offs on such receivables in the future.

- **Low collection rate in 1H20.** EPSG's collection rate of PM fees, calculated by dividing payments of PM fees received during a period (including any such fees received for previous periods and any prepaid fees for future periods, except for adjustments for the prepayment received in connection with a one-off large-scale promotional activity held in late 2018 to encourage advance payments of PM fees for 2019 and 2020) by the corresponding total PM fees receivables for the same period, were 94.4%, 91.7%, 95.0%, and 81.3%, respectively, in 2017, 2018, 2019, and 1H20. A lower cash collection rate was registered in 1H20, mainly attributable to the COVID-19 pandemic and seasonal factor since bill settlement is typically slower in the first half of each year.

- **Substantial amount of related-party transactions.** Revenue from related parties accounted for 35.9% of total revenue in 1H20. Financial performance of EPSG is highly correlated to Evergrande Group, in our view. However, the contribution of related parties dropped steadily from 44.2% of total revenue in 2017 to 42.8% in 2018, and 37.4% in 2019, and 35.9% in 1H20.

Exhibit 42: Related-party transactions of EPSG

	2017 RMBmn	2018 RMBmn	2019 RMBmn	1H20 RMBmn
EPSG	1,935	2,440	2,658	1,597
JV of EPSG	8	86	88	40
Total	**1,943**	**2,526**	**2,746**	**1,638**
YoY change		*30%*	*9%*	*21%*
As % of total revenue	*44.2%*	*42.8%*	*37.4%*	*35.9%*

Source(s): The Company, ABCI Securities

- **Conservative approach in M&A.** EPSG's acquisition history began in 2019 when it expanded its GFA under management by 0.124mn sqm via M&A. Since the external business development team was formed in June 2020, EPSG has initiated a series of acquisitions and acquired five regional PMCs with a total GFA under management of 7.72mn sqm (equivalent to 3.0% of EPSG's GFA under management as at Jun 2020). However, given the short history of the M&A team, the acquisition pace may fluctuate.

- **Share price volatility risk.** Share price volatility of Evergrande Group, controlling shareholder of EPSG is high. The high volatility of Evergrande Group may affect EPSG, due to their close business relationship. Given short trading history of EPSG, we are unable to evaluate the price volatility risk caused by Evergrande Group at this moment.

Exhibit 43: Share price volatility (as at Jan 20, 2021)

Price volatility	Evergrande Group (3333 HK)	EPSG (6666 HK)	Country Garden (2007 HK)	CGS (6098 HK)
180 days	65.13	-	31.74	46.87
260 days	66.91	-	36.90	47.41
30 days	**53.70**	**108.2**	**34.47**	**69.26**

Source(s): Bloomberg, ABCI Securities

Financial statements

Consolidated income statement (2018A-2022E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	**5,903**	**7,333**	**10,546**	**15,838**	**22,483**
Cost of services	(5,180)	(5,578)	(6,612)	(10,167)	(14,484)
Gross Profit	**723**	**1,755**	**3,935**	**5,672**	**7,999**
Selling and marketing expenses	-	-	-	-	-
Administrative expenses	(401)	(515)	(533)	(686)	(896)
EBIT	**322**	**1,240**	**3,402**	**4,986**	**7,104**
Other income	20	67	112	207	224
Share of results of associates	-	-	-	-	-
Finance expenses	(13)	(29)	-	-	-
Other expenses and net impairment losses on financial assets	(18)	(48)	(110)	(53)	(76)
Profit before tax	**310**	**1,229**	**3,404**	**5,140**	**7,251**
Tax	(71)	(299)	(851)	(1,285)	(1,813)
Profit after tax	**239**	**931**	**2,553**	**3,855**	**5,438**
Minority interest	0	(0)	-	-	-
Net profit	**239**	**930**	**2,553**	**3,855**	**5,438**
Core profit*	**239**	**930**	**2,606**	**3,855**	**5,438**
Per share					
Reported EPS (RMB)	0.02	0.09	0.24	0.36	0.50
Core EPS (RMB)	0.02	0.09	0.24	0.36	0.50
DPS (RMB)	-	-	0.06	0.09	0.13
Payout ratio (%)	0%	0%	25%	25%	25%
BVPS (RMB)	0.08	0.18	0.88	1.15	1.53
Growth %					
Revenue	34.2%	24.2%	43.8%	50.2%	42.0%
Gross Profit	67.0%	142.7%	124.2%	44.1%	41.0%
EBIT	83.3%	285.4%	174.4%	46.5%	42.5%
Core profit	124.4%	289.0%	180.1%	47.9%	41.1%
Margin %					
Gross profit margin	12.2%	23.9%	37.3%	35.8%	35.6%
EBIT margin	5.5%	16.9%	32.3%	31.5%	31.6%
Core net margin	4.1%	12.7%	24.7%	24.3%	24.2%
Revenue breakdown (RMBmn)					
Property management services	3,464	4,612	5,896	8,437	11,756
VAS to non-property owners	2,103	2,148	3,442	4,841	6,099
Community value added services	335	573	1,208	2,560	4,628
Total	**5,903**	**7,333**	**10,546**	**15,838**	**22,483**
Key assumptions					
Contracted GFA(mn sqm)	422.5	505.1	584.6	730.0	881.3
GFA under management (mn sqm)	185.4	237.9	306.1	435.6	572.1

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 (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	**5,703**	**7,307**	**15,190**	**19,447**	**25,400**
Bank balances and cash	1,054	684	9,163	10,448	12,695
Trade receivables	3,141	5,257	6,010	8,983	12,690
Inventories	0	0	0	0	0
Due from related parties	1,489	1,350	0	0	0
Other current assets	19	16	16	16	16
Non-current assets	**139**	**150**	**265**	**762**	**1,237**
Property, plant and equipment	61	57	173	670	1,145
Intangible assets	1	0	0	0	0
Right of use assets	21	26	26	26	26
Other non-current assets	56	66	66	66	66
Total Assets	**5,842**	**7,457**	**15,455**	**20,209**	**26,638**
Current Liabilities	**5,037**	**5,669**	**5,905**	**7,768**	**10,118**
Lease liabilities	14	14	14	14	14
Contract liabilities	2,491	2,285	2,285	2,285	2,285
Bank borrowings	150	3	3	3	3
Trade payables	2,286	2,969	3,205	5,067	7,417
Other current liabilities	96	398	398	398	398
Non-current liabilities	**8**	**13**	**13**	**13**	**13**
Other non-current liabilities	8	13	13	13	13
Deferred Tax Liabilities	0	0	0	0	0
Total Liabilities	**5,045**	**5,682**	**5,918**	**7,780**	**10,131**
Net Assets	**797**	**1,774**	**9,537**	**12,428**	**16,507**
Shareholders' Equity	**797**	**1,762**	**9,524**	**12,416**	**16,494**
Minority Interest	(0)	13	13	13	13
Total Equity	**797**	**1,774**	**9,537**	**12,428**	**16,507**
Key ratio					
Gross debt (RMB mn)	150	3	3	3	3
Net debt/ (cash) (RMB mn)	(904)	(682)	(9,160)	(10,445)	(12,692)
Net gearing (%)	-113%	-38%	-96%	-84%	-77%

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	353	1,278	3,419	5,028	7,194
Change in Working Capital	686	(1,639)	(518)	(1,110)	(1,357)
Tax payment	(3)	(7)	(851)	(1,285)	(1,813)
Operating Cash Flow	**1,036**	**(368)**	**2,051**	**2,633**	**4,025**
Purchase of PP&E	(38)	(17)	(133)	(539)	(566)
Disposal of IP	-	-	-	-	-
Change in financial assets	(0)	(0)	-	-	-
Proceeds from disposal of financial assets	(919)	139	-	-	-
Others	0	0	-	-	-
Investing Cash Flow	**(958)**	**122**	**(133)**	**(539)**	**(566)**
Debt raised	150	3	-	-	-
Interest expenses	(12)	(5)	-	-	-
Equity raised	-	-	5,861	-	-
Payment to shareholders	-	(4)	(652)	(964)	(1,360)
Others	(17)	32	1,352	155	148
Financing Cash Flow	**12**	**(124)**	**6,561**	**(809)**	**(1,212)**
Net cash inflow/ (outflow)	**90**	**(370)**	**8,479**	**1,285**	**2,247**
Cash- beginning	964	1,054	684	9,163	10,448
Cash- year-end	**1,054**	**684**	**9,163**	**10,448**	**12,695**

Source(s): The Company, ABCI Securities estimates

Appendix I- Company background

Exhibit 44: EPSG's Corporate information

Auditor	PricewaterhouseCoopers
Headquarter	Third Compartment of Room 3101 No. 78, Huangpu Avenue West Tianhe District Guangzhou Guangdong PRC
Company secretaries	Mr. Fong Kar Chun, Jimmy (方家俊)
Authorised representatives	Mr. Zhao Changlong (趙長龍) Mr. Fong Kar Chun, Jimmy (方家俊)

Source(s): The Company, ABCI Securities

Exhibit 45: Board of directors

Name	Position	Role and responsibilities
Mr. Zhao Changlong (趙長龍)	Executive Director and chairman of the Board	Responsible for the overall management and operation of the Group
Mr. Hu Liang (胡亮)	Executive Director and general manager	Responsible for the formulation of group policies and the business operation of the Group
Mr. Wang Zhen(王震)	Executive Director and deputy general manager	Responsible for human resources and administrative management of the Group
Ms. An Lihong (安麗紅)	Executive Director and deputy general manager	Responsible for finance and cost management of the Group
Mr. Chan Chun Hung, Vincent (陳鎮洪)	Independent non-executive Director	Responsible for providing independent advice on the operations and management of the Group
Mr. Victor Huang (黃偉德)	Independent non-executive Director	Responsible for providing independent advice on the operations and management of the Group
Mr. Guo Zhaohui (郭朝暉)	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

I, Tung Yiu Kei Kenneth, being the person 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.

Definition of equity rating

Rating	Definition
Buy	Stock return rate≥ Market return rate (~10%)
Hold	- Market return rate (~-10%) ≤ Stock return rate < 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 (For reference: HSI total return index 2008-20 CAGR at 9.2%)

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with Evergrande Property Services, CR MIXC, Sunac Services, KWG Living, CCNL, Kaisa Prosperity.

Disclaimers

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