



## Powerlong Commercial Management (PCM) Ambitious three-year target

- PCM targets to manage 13 new Powerlong Plaza in 2021
- PCM aims to become the top three commercial property management company (PMC) in YRD by achieving 15mn sqm in commercial GFA under management by 2023
- PCM's residential contracted GFA to reach 50mn sqm by 2023, while the segment's gross margin would sustain at above 25%
- Expect a core profit CAGR of 38% for 2021-23E
- Maintain **BUY** with DCF-derived TP of HK\$ 28.80 (previous: HK\$ 28.00)

**Target to open 13 Powerlong Plaza in 2021.** PCM's revenue rose 19% YoY to RMB 1,921mn in 2020, driven by 17% YoY growth in commercial operational services (COS) and 26%YoY growth in residential property management services (RPMS). Net profit soared 71% YoY to RMB 305mn as gross margin jumped 4.5ppt YoY to 30.9%; SG&A expenses increased only by 7% YoY in 2020, reflecting effective cost control. Excluding non-recurring expenses, core profit rose 56%YoY to RMB 324mn (vs ABCI estimates: RMB326mn). Recovery was on track after COVID-19 in early 2020. PCM achieved an average occupancy rate of 89.9% in Dec 2020, up 0.5ppt YoY. Both single-store average passenger flow and single-store turnover have exceeded the 2019 level since Sep 2020. GFA under management in 2020 rose 23% YoY to 8.6mn sqm for shopping malls and 25% YoY to 14.4mn sqm for RPMS. In 2020, PCM added 2.48mn sqm in contracted GFA, of which parent/third-party/M&A accounted for 53.6%/11.7%/34.7%. Revenue from third-party projects increased 53% YoY to RMB 95mn, accounting for 4.9% of total revenue. In 2021, PCM targets to open 13 Powerlong Plazas (vs. nine malls in 2020). In addition, PCM will also open three Powerlong Lands and six Powerlong Xinghui.

**An ambitious three-year target.** For the shopping mall business, PCM aims to become the top three commercial PMC in YRD by achieving 15mn sqm in commercial GFA under management by 2023, while occupancy would improve to 95% or higher (from 89.9% in Dec 2020). On the residential side, PCM's residential contracted GFA should reach 50mn sqm by 2023, while the segment's gross margin would sustain at 25% or higher by raising the value-added services (VAS) revenue contribution to 40% above (from 24% of total RPMS revenue in 2020). Overall, we expect a core profit CAGR of 38% for 2021-23E. Regarding its Zhejiang Xinhui acquisition in 2020, PCM expects the entity to achieve a 28% net profit CAGR in 2020-24, while the no. of shopping streets under management would reach 100 in five years.

**Maintain BUY with revised TP at HK\$ 28.80.** Factoring in the better-than-expected cost savings and three-year guidance on VAS revenue, we fine-tuned our 2021E and 2022E core profit forecasts by 1.9% and 2.1%. Our DCF-based TP (WACC: 10%; terminal growth: 1%, unchanged) to HK\$ 28.80 (from HK\$ 28.00). Maintain **BUY**.

**Risk factors:** 1) Fail to renew COS contracts; 2) Limited M&A opportunities of shopping mall projects; 3) Uncertain development of COVID-19.

### Results and Valuation

FY ended Dec 31	2019A	2020A	2021E	2022E	2023E
Revenue (RMB mn)	1,620	1,921	2,794	3,862	5,060
Chg (% YoY)	35.0	18.6	45.5	38.2	31.0
Core net profit (RMB mn)*	208	324	506	700	966
Chg (% YoY)	56.0	55.5	56.5	38.3	38.0
Core EPS (RMB)	0.51	0.52	0.78	1.09	1.50
Chg (% YoY)	56.0	1.6	50.7	38.3	38.0
BVPS (RMB)	2.55	3.34	3.87	4.58	5.54
Chg (% YoY)	590.3	30.9	15.9	18.4	21.0
Core P/E (x)	37.9	37.3	24.7	17.9	13.0
P/B (x)	7.6	5.8	5.0	4.2	3.5
ROE (%)	19.7	16.4	21.8	25.7	29.5
ROA (%)	6.8	8.1	10.4	12.3	14.1
DPS(HK\$)	0.20	0.28	0.37	0.51	0.70
Yield (%)	0.87	1.21	1.58	2.19	3.02
Net Cash (RMBmn)	2,616	3,450	4,115	5,094	6,299

Note. RMB /HKD: 1.19

\*Excluding listing expenses and non-recurring expenses

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Mar 10, 2021

Rating: **BUY**

TP: HK\$ 28.80

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Share price (HK\$)	23.10
Est. share price return	30.3%
Est. dividend yield	1.6%
Est. total return	31.9%
Previous Rating & TP	BUY; HK\$28.00
Previous Report Date	Aug 20, 2020

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

52Wk H/L(HK\$)	29.95/9.34
Issued shares (mn)	644.0
Market cap (HK\$ mn)	14,876
3-mth Avg daily turnover (HK\$ mn)	51.57

### Major shareholder(s)

(%)	
Powerlong Holdings	65.06%
Huihong Management	7.23%

Source(s): Bloomberg, ABCI Securities

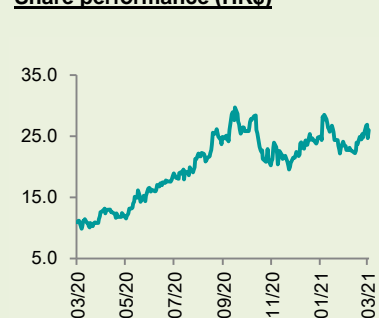
### Share Performance (%)

	Absolute	Relative*
1-mth	8.4	10.0
3-mth	12.0	2.2
6-mth	(1.9)	(16.4)

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### Share performance (HK\$)



Source(s): Bloomberg, ABCI Securities



Source(s): The Company, ABCI Securities estimates



## Financial statements

### Consolidated income statement (2019A-2023E)

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
<b>Revenue</b>	<b>1,620</b>	<b>1,921</b>	<b>2,794</b>	<b>3,862</b>	<b>5,060</b>
Cost of services	(1.192)	(1.327)	(1.893)	(2.592)	(3.352)
<b>Gross Profit</b>	<b>428</b>	<b>595</b>	<b>902</b>	<b>1,269</b>	<b>1,709</b>
Selling and marketing expenses	(42)	(36)	(45)	(58)	(74)
Administrative expenses	(88)	(116)	(162)	(219)	(274)
<b>EBIT</b>	<b>299</b>	<b>442</b>	<b>694</b>	<b>992</b>	<b>1,361</b>
Other income	17	33	33	23	23
Finance income	8	23	38	23	28
Finance expenses	(40)	(34)	(49)	(49)	(49)
Net impairment losses	(7)	(23)	(30)	(43)	(58)
Share of profit/(losses) from associates	-	(3)	-	-	-
Other (losses)/gains-net	(29)	(18)	-	-	-
<b>Profit before tax</b>	<b>247</b>	<b>420</b>	<b>685</b>	<b>947</b>	<b>1,306</b>
Tax	(69)	(113)	(176)	(243)	(335)
<b>Profit after tax</b>	<b>179</b>	<b>307</b>	<b>509</b>	<b>704</b>	<b>971</b>
Minority interest	-	(2)	(3)	(3)	(4)
<b>Net profit</b>	<b>179</b>	<b>305</b>	<b>506</b>	<b>700</b>	<b>966</b>
Less: exceptional items	29	18	0	0	0
<b>Core net profit*</b>	<b>208</b>	<b>324</b>	<b>506</b>	<b>700</b>	<b>966</b>
<b>Per share</b>					
Reported EPS (RMB)	0.44	0.49	0.78	1.09	1.50
Core EPS (RMB)	0.51	0.52	0.78	1.09	1.50
DPS (HK\$)	0.20	0.28	0.37	0.51	0.70
Payout ratio (%)	33%	45%	47%	47%	47%
BVPS (RMB)	2.55	3.34	3.87	4.58	5.54
<b>Growth %</b>					
Revenue	35.0%	18.6%	45.5%	38.2%	31.0%
Gross Profit	31.5%	38.8%	51.6%	40.8%	34.6%
EBIT	39.5%	48.0%	56.9%	43.0%	37.1%
Core profit	56.0%	55.5%	56.5%	38.3%	38.0%
<b>Margin %</b>					
Gross margin	26.4%	30.9%	32.3%	32.9%	33.8%
EBIT margin	18.4%	23.0%	24.8%	25.7%	26.9%
Core Net margin	12.8%	16.8%	18.1%	18.1%	19.1%
<b>Revenue breakdown</b>					
Commercial operational services	1,335	1,563	2,319	3,232	4,263
Property management services	285	358	476	630	797
<b>Total</b>	<b>1,620</b>	<b>1,921</b>	<b>2,794</b>	<b>3,862</b>	<b>5,060</b>
<b>Key assumptions</b>					
<b>Contracted GFA (mn sqm)</b>	<b>28.4</b>	<b>34.6</b>	<b>42.1</b>	<b>51.1</b>	<b>61.9</b>
- COS	8.9	11.3	14.1	16.8	19.6
- RPMS	19.5	23.2	28.0	34.2	42.3
<b>GFA under management (mn sqm)</b>	<b>18.5</b>	<b>23.0</b>	<b>30.7</b>	<b>38.4</b>	<b>46.9</b>
- COS	7.0	8.6	10.8	13.0	15.2
- RPMS	11.5	14.4	19.9	25.4	31.7

Source(s): The Company, ABCI Securities estimates

\* Excluding listing expenses



Consolidated balance sheet (2019A-2023E)

As of Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
<b>Current assets</b>	<b>2,824</b>	<b>3,719</b>	<b>4,431</b>	<b>5,466</b>	<b>6,732</b>
Bank balances and cash	2,616	3,449	4,114	5,094	6,298
Restricted cash	0	1	1	1	1
Prepayments and other receivables	91	105	152	207	269
Operating lease and trade receivables	114	162	162	162	162
Income tax recoverable	3	3	3	3	3
Other current assets	0	0	0	0	0
<b>Non-current assets</b>	<b>267</b>	<b>801</b>	<b>797</b>	<b>788</b>	<b>772</b>
Property, plant and equipment	7	10	13	13	10
Investment properties	207	688	681	672	659
Deferred tax assets	48	74	74	74	74
Other non-current assets	5	29	29	29	29
<b>Total Assets</b>	<b>3,091</b>	<b>4,520</b>	<b>5,228</b>	<b>6,253</b>	<b>7,504</b>
<b>Current Liabilities</b>	<b>1,313</b>	<b>1,689</b>	<b>2,052</b>	<b>2,614</b>	<b>3,242</b>
Advances from leasees	27	15	15	15	15
Contracted and lease liabilities	489	511	511	511	511
Trade payables	763	1,061	1,425	1,986	2,614
Borrowings	0	0	0	0	0
Other current liabilities	34	101	101	101	101
<b>Non-current liabilities</b>	<b>190</b>	<b>666</b>	<b>666</b>	<b>666</b>	<b>666</b>
Bank and other borrowings	0	0	0	0	0
Lease liabilities	190	660	660	660	660
Deferred tax liabilities and others	0	6	6	6	6
<b>Total Liabilities</b>	<b>1,504</b>	<b>2,355</b>	<b>2,718</b>	<b>3,280</b>	<b>3,908</b>
<b>Net Assets</b>	<b>1,587</b>	<b>2,166</b>	<b>2,510</b>	<b>2,973</b>	<b>3,597</b>
Shareholders' Equity	1,587	2,153	2,495	2,954	3,573
Minority Interest	0	13	16	19	23
<b>Total Equity</b>	<b>1,587</b>	<b>2,166</b>	<b>2,510</b>	<b>2,973</b>	<b>3,597</b>
<b>Key ratio</b>					
Gross debt (RMB mn)	-	-	-	-	-
Net debt/ (cash) (RMB mn)	(2,616)	(3,450)	(4,115)	(5,094)	(6,299)
Net gearing (%)	-165%	-159%	-164%	-171%	-175%

Source(s): The Company, ABCI Securities estimates



**Consolidated cash flow statement (2019A-2023E)**

As of Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
EBITDA	404	541	708	1,012	1,386
Change in Working Capital	208	236	317	507	566
Tax payment	(79)	(113)	(176)	(243)	(335)
<b>Operating Cash flow</b>	<b>534</b>	<b>664</b>	<b>849</b>	<b>1,275</b>	<b>1,616</b>
Purchase of PP&E	(6)	(10)	(10)	(10)	(10)
Purchase of intangible assets	-	(41)	-	-	-
Restricted cash for bank borrowing	-	-	-	-	-
Cash advance to related parties	(780)	-	-	-	-
Repayment of related parties	1,212	-	-	-	-
Others	277	23	38	23	28
<b>Investing Cash flow</b>	<b>702</b>	<b>(27)</b>	<b>28</b>	<b>13</b>	<b>18</b>
Repayments of borrowings	(647)	-	-	-	-
Interest paid	(40)	(34)	(49)	(49)	(49)
Equity raised	1,277	228	-	-	-
Dividend to shareholders	-	(116)	(165)	(241)	(347)
Others	238	118	2	(20)	(34)
<b>Financing Cash flow</b>	<b>827</b>	<b>196</b>	<b>(211)</b>	<b>(309)</b>	<b>(431)</b>
Net cash inflow/ (outflow)	<b>2,063</b>	<b>833</b>	<b>665</b>	<b>979</b>	<b>1,204</b>
<b>Cash- beginning</b>	<b>553</b>	<b>2,616</b>	<b>3,449</b>	<b>4,114</b>	<b>5,094</b>
<b>Cash- year-end</b>	<b>2,616</b>	<b>3,449</b>	<b>4,114</b>	<b>5,094</b>	<b>6,298</b>

Source(s): The Company, ABCI Securities estimates



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

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 2008-20CAGR at 9.2%)

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