

China Resources Mixc Lifestyle Services (1209 HK)

Shopping malls to drive growth

- As of June 30, 2020, GFA under mgt reached 106.6mn sqm, of which 97.5mn sqm, 4.0mn sqm, and 5.1mn sqm came from residential and other properties, shopping malls, and offices. We expect GFA under mgt to increase at 37% CAGR from 121mn sqm in 2020E, to 225mn in 2022E
- The newly introduced commercial operational services (COS) business will drive revenue and margins
- Rising contracted sales of parent company enables revenue growth in residential property mgt services (RPMS)
- Initiate **BUY** with DCF-derived TP of HK\$50.50

A leader in property mgt and COS. China Resources Mixc Lifestyle Services (CRMLS) is a leading property mgt and commercial operational service provider in China. As of June 30, 2020, the GFA of the residential and commercial properties under CRMLS's property mgt services (PMS) was ~106.6 mn sqm. According to Frost & Sullivan, CRMLS was ranked fifth in terms of PMS revenue in 2019 among all PRC property mgt companies (PMCs) and second in terms of shopping mall PMS revenue in 2019 among all PRC shopping mall operational service providers.

COS business to drive revenue and margins. Since Jan 2020, CRMLS has started its COS business by providing services, such as tenant sourcing and operation mgt, to shopping malls. As of June 30, 2020, CRMLS operated 51 shopping malls with an aggregate GFA of 5.61mn sqm under COS; another 4.147mn sqm is in the pipeline. In 1H20, revenue from shopping malls jumped 40.8%YoY to RMB 1,005mn. Since 2H20, COS business for office buildings has commenced.

Parent's contracted sales drive GFA growth for residential properties. Managed GFA under residential property mgt services (RPMS) rose from 61.1mn sqm in 2017, to 92.1mn sqm in 2019, implying a 23% CAGR during the period. Strong residential GFA growth is driven by impressive contracted sales from CR Land, as it increased 17.5% YoY to RMB 285bn while contracted GFA rose 7.1% YoY to 14.19mn sqm in FY20. CRMLS plans to undertake engagements with other types of CR Group properties, such as industrial parks and factories.

Initiate BUY with TP at HK\$ 50.50. Since a substantial proportion of the revenue is determined by PM agreements with regular cash flow, we employ the DCF method to assess the Group's value. Our DCF-based TP of HK\$ 50.50 translates into 65.1x/44.5x P/E and 6.8x/6.1x P/B for 2021E/2022E. While we think CRMLS's share price has factored in the fast GFA and revenue growth for 2020-2021E, further upside will take a longer time horizon as investors begin to look at CRMLS's impressive 2022E financial performance (+46%YoY in core profit).

Results and Valuations

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	4,432	5,868	6,669	8,467	11,483
Chg (% YoY)	41.6	32.4	13.6	27.0	35.6
Core net profit (RMB mn) ¹	188	329	648	1,476	2,160
Chg (% YoY)	44.1	74.9	96.8	128.0	46.3
Core EPS (RMB)	0.11	0.20	0.38	0.65	0.95
Chg (% YoY)	44.1	74.9	90.7	70.1	46.3
BVPS (RMB)	0.40	0.63	5.73	6.18	6.85
Chg (% YoY)	112.0	54.7	816.5	7.9	10.7
P/E (x)	322.5	184.4	96.7	56.9	38.9
P/B (x)	91.0	58.8	6.4	5.9	5.4
Core ROE (%)	86.2	43.0	8.5	10.9	14.5
Core ROA (%)	8.8	5.7	4.6	7.5	10.1
DPS (RMB)	-	-	0.11	0.19	0.28
Yield (%)	-	-	0.31	0.53	0.77
Net cash (RMBmn)	1,321	1,330	13,325	13,330	13,966

Source(s): The Company, ABCI Securities estimates

¹ Core net profit= Profit after tax –other expenses and non-recurring items and related tax impact

² RMB to HK\$= 1.20

Source(s): The Company, ABCI Securities estimates

Company Report Feb 4, 2021

Rating: BUY
TP: HK\$ 50.50

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Key Data

Share price (HK\$)	44.15
Est. share price return	14.4%
Est. dividend yield	0.3%
Est. total return	14.7%
Previous Rating & TP	NA
Previous Report Date	NA

Source(s): The Company, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	46.95/27.25
Issued shares (mn)	2,283
Market cap (HK\$ mn)	100,794
Avg daily turnover since listing (HK\$ mn)	199.04
Major shareholder(s) (%):	
CR Land	73.72

Source(s): Bloomberg, ABCI Securities

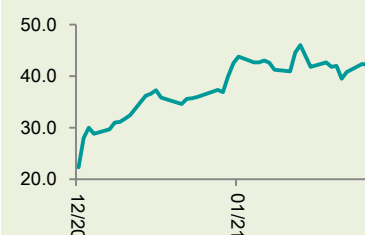
Share Performance (%)

	Absolute	Relative*
1-mth	21.7	15.1
3-mth	na	na
6-mth	na	na

* Relative to HSI

Source(s): The Company, ABCI Securities

1-Year share performance (HK\$)



Source(s): Bloomberg, ABCI Securities



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Resources Mixc Lifestyle Services Limited (1209 HK, BUY)

China Property Management Sector

Feb 4, 2021

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List of Acronyms and Abbreviations

Acronyms/ Abbreviations	Explanations
CSS	Commercial subleasing services
COPMS	Commercial operational and property mgt service
COS	Commercial operational service
CRMLS	China Resources Mixc Lifestyle Services
CVAS	Community value-added services
F&S	Frost and Sullivan
GBA	Greater Bay Area
PMCs	Property mgt companies
PMS	Property mgt service
RPMS:	Residential property mgt services
VASPD	Value-added services to property developers
Core profit	Profit for the year/period, adjusted for (i) gain or loss on changes in fair value of investment property, and (ii) deferred tax credited or charged to profit or loss associated with gain or loss on changes in fair value of investment property

A leader in property mgt and commercial operational services (COS)

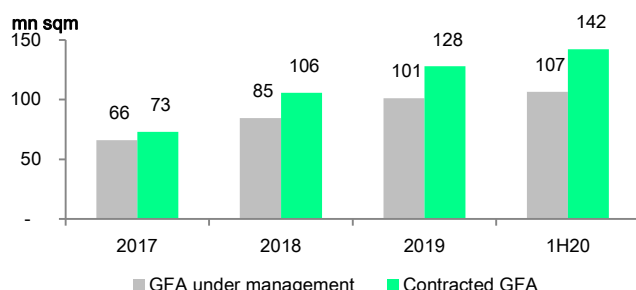
Synergies emerged among residential, malls, and office properties

China Resources Mixc Lifestyle Services (CRMLS) is a leading property mgt and COS provider in China. As of June 30, 2020, the GFA of the residential and commercial properties under CRMLS's PMS was ~106.6 mn sqm, and the GFA of the shopping malls under COS was ~ 5.6 mn sqm. According to Frost & Sullivan (F&S), CRMLS was ranked:

- **Fifth** in terms of PMS revenue in 2019 among all PRC property mgt companies (PMCs);
- **Second** in terms of shopping mall PMS revenue in 2019 among all PRC shopping mall operational service providers;
- **First** in terms of the number of managed luxury shopping malls in China in 2019 among shopping mall operational service providers;
- **Second** in terms of total revenue from the shopping mall operational services market in 1H20 among all PRC shopping mall operational service providers

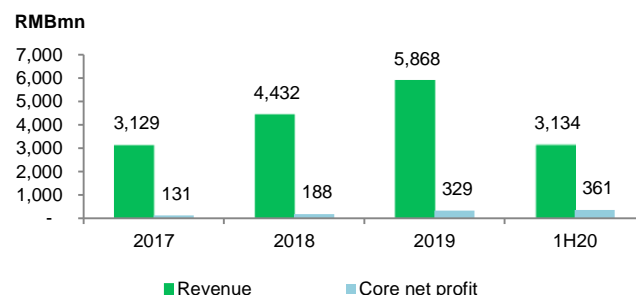
The business of CRMLS is rooted in the property development and investment of CR Land (1109 HK), the controlling shareholder, when it started to provide PMS and COS for properties developed and owned by CR Land. CRMLS has expanded to offer comprehensive services for multiple types of properties and created an integrated lifestyle service platform. Driven by fast-growing GFA under mgt, CRMLS's revenue soared from RMB 3,129mn in 2017 to RMB 5,868mn in 2019, implying a 37% CAGR during the period; core profit (which excluded fair value changes in investment properties and related tax impact) jumped from RMB 131mn in 2017 to RMB 329mn in 2019, implying a 59% CAGR during the period. In 1H20, total revenue and core profit of CRMLS grew 19%YoY to RMB 3,134mn and 103%YoY to RMB 361mn.

Exhibit 1: CRMLS's GFA under mgt and contracted GFA under property mgt services



Source(s): The Company, ABCI Securities

Exhibit 2: CRMLS's revenue and core net profit growth



Source(s): The Company, ABCI Securities

CRMLS is experienced in managing an extensive portfolio of commercial complexes, which consists of various types of properties and spaces, including residential properties, shopping malls, and office buildings, all close to each other. Such commercial complexes allow for synergies in multiple ways:

Between shopping malls and residential properties

- Shopping malls managed and operated by CRMLS offer a wide range of lifestyle services and products, covering shopping, food and beverages, entertainment, and education, which increase the overall satisfaction and loyalty of residents in those nearby properties under mgt.
- Residential properties managed by CRMLS provide a stable customer base for managed shopping malls within the communities, thereby supporting tenants' sales in the shopping malls.

Between shopping malls and office buildings

- Office owners can attract more high-quality tenants with the offerings of a wide variety of convenient services from nearby shopping malls managed and operated by CRMLS.
- Shopping malls managed and operated benefit from the foot traffic and a quality retail customer base with relatively strong purchasing power in neighboring office buildings managed by CRMLS.

Between residential properties and office buildings

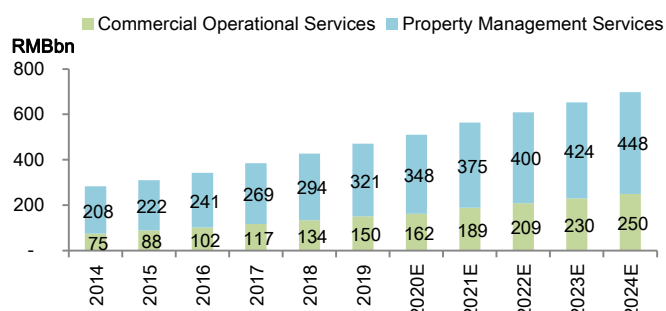
- Residential properties with CRMLS's PMS offer accommodation convenience for office space users, enhancing the attractiveness of CRMLS's office buildings under mgt and retaining office tenants.
- Office buildings under mgt attract a large number of quality tenants and office space users, who may become potential residents of CRMLS's managed residential properties.

CRMLS further enhances the synergies among different types of properties by launching joint marketing campaigns, applying big data analytics to the online platforms, such as "E-MIXC", "Officeasy", and "JOY LIFE", in addition to providing membership and reward programs for CRMLS's users. As of June 30, 2020, "E-MIXC" had over 10mn members, "JOY LIFE" had 790,000 members, and "Officeasy" and its related programs have ~60,000 tenant members.

Industry overview and competitive landscape

- **Integrated property mgt and COS market in China:** The total revenue of the integrated PMS and COS market in China increased from RMB 282.8bn in 2014 to RMB 470.9bn in 2019, representing a 2014-19 CAGR of 10.7%. The COS market is expected to reach RMB 698.2bn in 2024, implying a 2019-24 CAGR of 8.2%, according to F&S. The PRC PMS market is fragmented with over 110,000 PMCs in 2019, among which the top 10 companies contributed to ~20.1% of total market share. CRMLS was ranked fifth with a market share of 1.8%.

Exhibit 3: Market size of the PRC integrated PMS and COS market by revenue



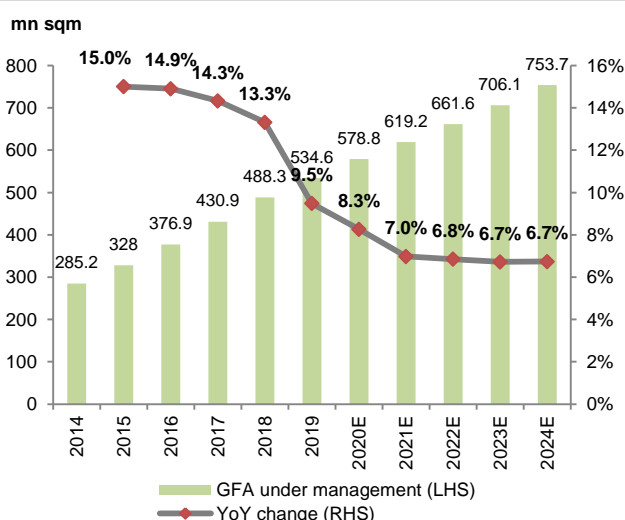
Source(s): F&S, ABCI Securities

Exhibit 4: Top 10 companies of the PMS market by revenue in China, 2019

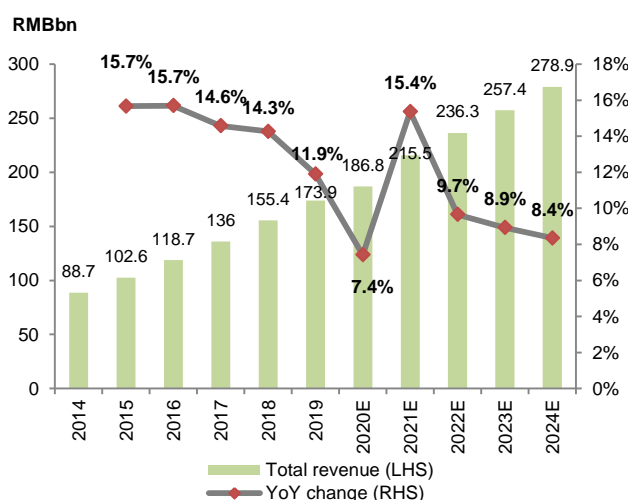
Ranking	Company Name	Market share %
1	Company A	3.8
2	Company B	2.9
3	Company C	2.4
4	Company D	2.0
5	CRMLS	1.8
6	Company F	1.7
7	Company H	1.5
8	Company E	1.4
9	Company G	1.4
10	Company I	1.2
Total		20.1

Source(s): F&S, ABCI Securities

- **Shopping mall operational services in China:** According to F&S, the total GFA under mgt in the PRC shopping mall operational services market increased at a CAGR of 13.4% from 285.2 mn sqm in 2014 to 534.6 mn sqm in 2019, and is expected to reach 753.7 mn sqm in 2024, representing a 2019-24 CAGR of 7.1%. The total revenue of shopping mall operational service providers in China increased at a CAGR of 14.4% from RMB 88.7bn in 2014 to RMB 173.9bn in 2019. With favorable policies stimulating retail consumption, the market is expected to reach RMB 278.9bn in 2024, implying a 2019-24 CAGR of 9.9%. According to F&S, in terms of revenue from shopping mall PMS, the top five shopping mall operational service providers contributed to ~23.4% of total revenue in 2019, among which CRMLS was ranked second with a market share of 4.3%.

Exhibit 5: Market size of the PRC shopping mall operational services by GFA under mgt


Source(s): F&S, ABCI Securities

Exhibit 6: Market size of the PRC shopping mall operational services by revenue


Source(s): F&S, ABCI Securities

Exhibit 7: The top five PRC shopping mall operational service companies by revenue from shopping mall PMS, in China, 2019:

Ranking	Company Name	Market share %
1	Company J	13.1
2	CRMLS	4.3
3	Company K	2.4
4	Company L	1.9
5	Company M	1.7
Total		23.4

Source(s): F&S, ABCI Securities

Exhibit 8: Major competitors in the shopping mall operational services market by weighted average rental rate of shopping malls under mgt in China, 2019

Ranking	Company Name	Weighted Average Rental of Shopping Malls under mgt RMB/sqm/mth
1	CRMLS	291.4
2	Company K	197.2
3	Company L	181.6
4	Company M	135.8
5	Company J	111.3

Source(s): F&S, ABCI Securities

Diversified revenue mix

CRMLS has two major business lines:

- 1) **Residential property mgt services (RPMS)- 59% of 2019 revenue; 29% CAGR in 2017-19:**
 - (i) **Property mgt service (PMS)**- including security, cleaning and greening, as well as repair and maintenance services to (a) property developers for undelivered portion of properties, and (b) property owners, property owners' associations, or residents for properties sold and delivered;
 - (ii) **Value-added services to property developers (VASNPD)**- including consultancy, preliminary preparation, and pre-delivery marketing services;
 - (iii) **Community value-added services (CVAS)**- including community living services and brokerage and asset services
- 2) **Commercial operational and property mgt services (COPMS)- 41% of 2019 revenue; 53% CAGR in 2017-19:**

For shopping malls:

- (i) **Commercial operational service (COS)**- including pre-opening mgt and operation mgt services;
- (ii) **Property mgt service (PMS)** -principally including security, cleaning and greening, repair and maintenance, as well as other value-added services;
- (iii) **Commercial subleasing services (CSS)**

For office buildings, CRMLS provides PMS, including security, cleaning and greening, repair and maintenance, and other value-added services. Since the 2H20, CRMLS has started to provide COS to office buildings, such as tenant sourcing, asset mgt and operational services, and opening services.

Exhibit 9: CRMLS's contracted GFA



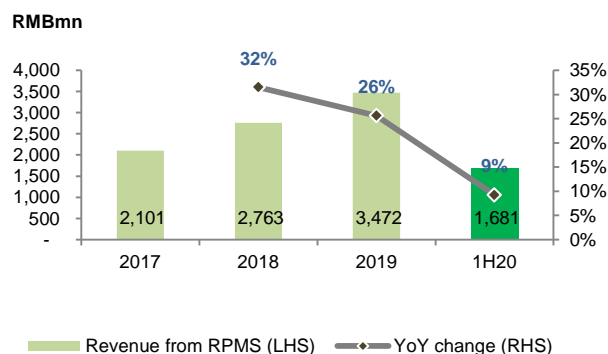
Source(s): The Company, ABCI Securities

Exhibit 10: CRMLS's GFA under mgt



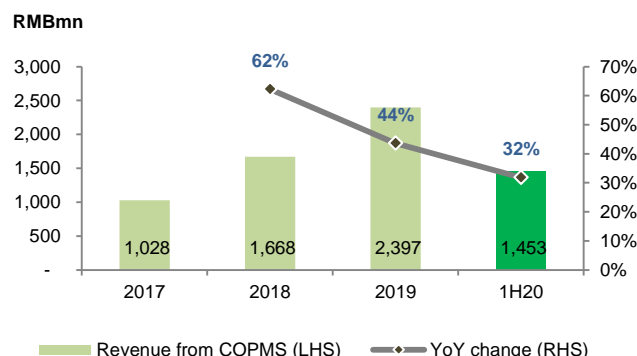
Source(s): The Company, ABCI Securities

Exhibit 11: CRMLS's revenue from RPMS



Source(s): The Company, ABCI Securities

Exhibit 12: CRMLS's revenue from COPMS



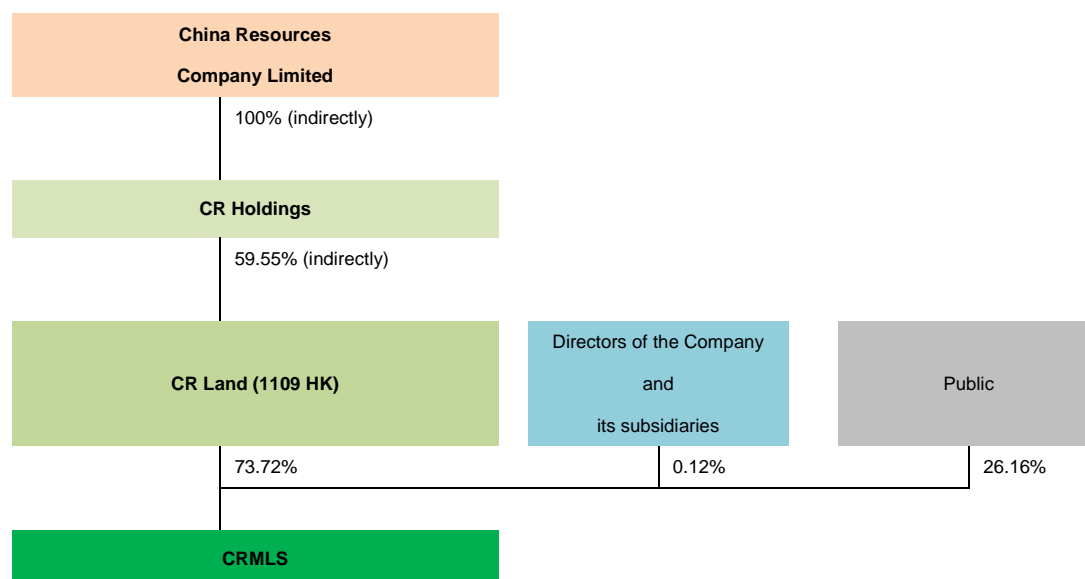
Source(s): The Company, ABCI Securities

Shareholding structure

After its IPO on Dec 9, 2020, CRMLS became a 73.72%-owned subsidiary of CR Land (1109 HK), which is 59.55%-owned by CR Holdings indirectly. Employee Preferential Offering was also introduced during the IPO. 32,802,200 Shares (1.44% of total share post IPO) have been placed to 243 eligible directors and employees pursuant to the Employee Preferential Offering. In particular, directors of the CRMLS and its subsidiaries owns about 0.12% stake of CRMLS. In our view, CRMLS's mgt will have greater incentives to achieve their internal operating targets as their financial interests align.

CR Group (i.e., CR Holdings and its subsidiaries) is a key state-owned conglomerate with five main business areas: consumer products, healthcare, urban construction and operation, energy services, as well as technology and finance. CR Land, a strategic business unit of CR Group, is an integrated operator in urban investment development and operation. CRMLS benefits from substantial synergies with CR Group and CR Land.

Exhibit 13: Shareholder structure (Jan 2021)



Source(s): The Company, ABCI Securities



Commercial operational and property mgt services (COPMS): the prestigious CR brand drives fee rate and margins

Overview

CRMLS engages in various types of COPMS on shopping malls and office buildings:

Shopping malls

■ COS

There are mainly two types of services provided:

(i) Pre-opening Mgt Services

- *Positioning and design mgt services*- CRMLS conducts market research to determine the positioning of shopping malls in terms of their services and operations based on their geographic locations, business environment, competitors, customer demand, and regional culture. CRMLS assists property owners in selecting design companies and provide design consultancy and mgt services.
- *Tenant sourcing and mgt services*- CRMLS assists property developers or owners in identifying and soliciting target tenants; conducts tenant background search and tenant negotiation.

(ii) Operation Mgt Services

- *Opening services*- CRMLS provides a series of mgt services in preparation for shopping malls' opening, including formulating promotion strategies, cost control and budget plans, and property mgt plans. CRMLS also organizes opening ceremony and promotion events.
- *Tenant coaching services*- CRMLS actively responds to tenants' needs, such as advertising space allocation and equipment maintenance. CRMLS provides training on shopping mall mgt systems, shop display, customer relations, and customer acquisition.
- *Consumer mgt service*- CRMLS has established an integrated membership program (e.g., E-MIXC" app and WeChat mini-program) for shopping malls so that members can enjoy consistent services and benefits across the country
- *Marketing and publicity services*- CRMLS assists tenants in their business promotion activities, such as new product releases, holiday sales, and themed events

■ PMS

- (i) *Security*- The security services provided include, among others, traffic mgt, parking mgt, patrolling, event mgt, emergency response, access control, and fire safety, etc.
- (ii) *Cleaning and greening*- CRMLS provides general cleaning and hygiene maintenance services to the common areas, exterior walls, staircases, lobbies, car parks, basements, and gardens. CRMLS provides greening services such as pruning, fertilizing, and pest control.
- (iii) *Repair and maintenance*- CRMLS is generally responsible for ensuring that elevator systems, power supply and distribution systems, water supply and drainage systems, fire extinguishing and air conditioning systems, and other facilities and equipment are in good working order.
- (iv) *Other value-added services*- CRMLS offers preliminary consultancy services and opening preparation services to property developers. During property construction, CRMLS helps review designs and construction drawings, select equipment, conduct on-site inspection, and facilitate project handover before opening.



■ CSS

For certain quality shopping malls developed or owned by independent third-party developers, CRMLS leases properties from their owners and subleases to tenants as sub-lessors. According to each commercial subleasing project's positioning and investment strategy, CRMLS may conduct necessary site renovation and furnishing services to the leased properties to improve operating efficiency.

Office Buildings

■ PMS

- (i) *Security*- The security services provided include, among others, patrolling, electronic access control, manned guard stations, video surveillance, car park security, visitor mgt, and emergency response.
- (ii) *Cleaning and greening*- CRMLS provides general cleaning, waste clearance, pest control, and greening and gardening services.
- (iii) *Repair and maintenance*- repair and maintenance services typically covers (a) common area equipment and facilities, such as elevators, escalators and central air conditioning systems, (b) fire and safety facilities, such as fire extinguishers and fire alarm systems, (c) utility facilities, such as power supply and distribution systems and water supply and drainage systems, and (d) other buildings and ancillary facilities and equipment.
- (iv) *Other value-added services*- For property developers, CRMLS provided pre-delivery services to assist property developers with their sales and marketing activities to create the right brand image to potential property buyers, which was charged generally on a commission basis during the 2017-1H20. For tenants, CRMLS provide (i) brokerage services for office sales and rental transactions, (ii) renovation services, and (iii) common area mgt services mainly by leasing out common areas, such as car parks, advertising spaces, and other open areas, and are entitled to the income generated

■ COS

Since 2H20, CRMLS has started to provide COS, including tenant sourcing, asset mgt, operational services, and opening services to office buildings.

Exhibit 14: COPMS revenue by service type

(RMBmn)	2017	2018	2019	1H20
Shopping malls				
COS: Pre-opening mgt	-	-	-	18
COS: Operation mgt	-	-	-	273
PMS and other services	659	933	1,257	594
CSS	59	210	302	121
Office buildings				
PMS	311	525	838	448
Total	1,028	1,668	2,397	1,453

Source(s): The Company, ABCI Securities

Exhibit 15: COPMS by service type as a percentage of the segment's revenue

%	2017	2018	2019	1H20
Shopping malls				
COS: Pre-opening mgt	-	-	-	1.2%
COS: Operation mgt	-	-	-	18.8%
PMS and other services	64.1%	55.9%	52.4%	40.9%
CSS	5.7%	12.6%	12.6%	8.3%
Office buildings				
PMS	30.2%	31.5%	35.0%	30.8%
Total	100.0%	100.0%	100.0%	100.0%

Source(s): The Company, ABCI Securities

Shopping mall COS: inflow of malls from CR Land

Historically, COS to shopping malls were provided in the form of inter-department services as part of CR Land's integrated commercial property development and investment business without charging separate fees. Since Jan 2020, CRMLS has started to monetize COS provided to shopping malls. As of June 30, 2020, CRMLS operated 51 shopping malls with an aggregate GFA of 5.61 mn sqm in operation under COS; another 4.147mn sqm was in the pipeline.

Exhibit 16: Shopping malls in operation as at June 2020

Region	No of projects	GFA 000sqm	Occupancy %
MIXC			
North China Region	5	985	90.2
South China Region	7	979	93.8
East China Region	4	565	91.0
West China Region	3	481	96.2
Central China Region	2	324	97.3
Northeast China Region	1	166	98.6
MIXONE			
North China Region	8	739	92.8
Northeast China Region	4	384	93.5
East China Region	5	355	95.2
Central China Region	4	232	93.8
South China Region	4	145	91.4
West China Region	1	59	91.0
Others			
North China Region, East China Region, and South China Region	3	196	87.5
Total	51	5,610	93.1

Source(s): The Company, ABCI Securities

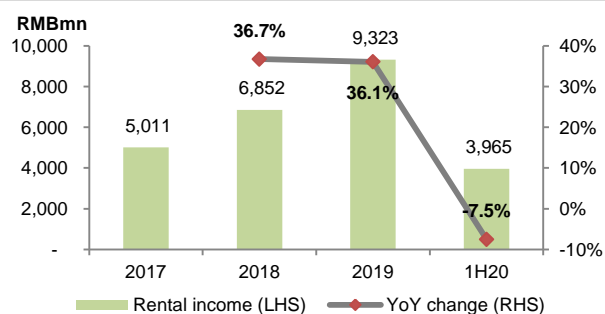
Exhibit 17: Pipelined shopping malls for which CRMLS has entered into COS contracts

Region	No of projects	Contracted GFA 000sqm
MIXC		
West China Region	3	380
South China Region	3	374
East China Region	2	344
Central China Region	3	225
Northeast China Region	1	153
MIXONE		
South China Region	5	396
East China Region	4	384
West China Region	4	332
North China Region	4	313
Northeast China Region	2	167
Central China Region	1	41
Others		
South China Region	6	475
North China Region	3	238
East China Region	3	173
West China Region	1	153
Total	45	4,147

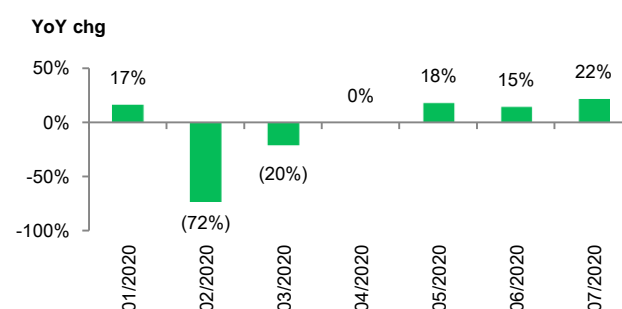
Source(s): The Company, ABCI Securities

Its parent company, CR Land, has supported the Group's GFA growth in shopping mall COS. According to CR Land's interim presentation in 1H20, its rental income from shopping malls grew from RMB 5,011mn in 2017 to RMB 9,323mn in 2019, implying a 36% CAGR. As of June 2020, CR Land had 42 malls in operation, 50 projects in the pipeline. CR Land also expects another 28 asset-light malls in operation after 2022, implying a total of 120 malls will be in its portfolio after 2022. CR Land's GFA of shopping malls in operation will increase from 6.2mn sqm in 2019 to 12.4mn sqm upon completion of the pipelined projects.

While CR Land's rental income from shopping malls dropped 7.5%YoY to RMB 3,965mn in 1H20 due to the RMB 0.7bn rental concession offered to tenants for COVID-19 lockdown, momentum has resumed in June (+15% YoY) and July (+22% YoY). We expect revenue from operational mgt services, which is based on the percentage of the rental income or operating income (up to 5%) or operating profit (up to 10%), to grow faster in 2H20. Driven by the new COS contribution, gross margin for shopping mall jumped 10.6ppt YoY to 36.0% in 1H20.

Exhibit 18: CR Land's rental revenue from shopping malls


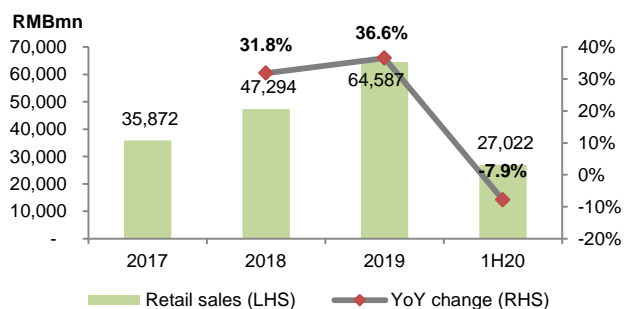
Source(s): CR Land, ABCI Securities

Exhibit 19: Rental income of CR Land's shopping malls (Jan 2020- July 2020)


Source(s): CR Land, ABCI Securities

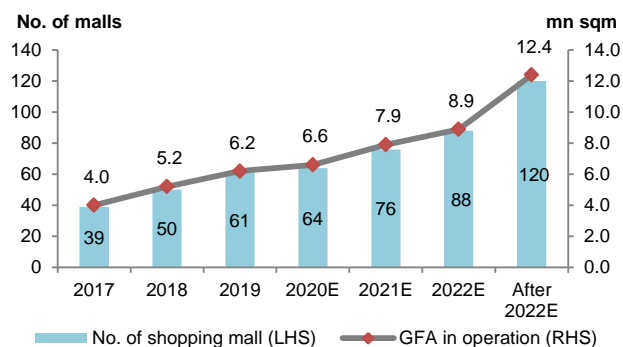


Exhibit 20: Retail sales performance of CR Land's shopping malls



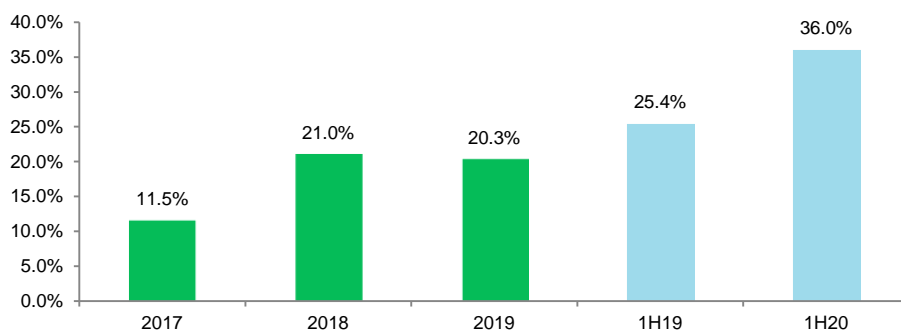
Source(s): CR Land, ABCI Securities

Exhibit 21: CR Land's number of shopping malls and GFA of shopping malls



Source(s): CR Land, ABCI Securities

Exhibit 22: Gross margin of the shopping mall segment



Source(s): The Company, ABCI Securities

Shopping mall PMS: rising fee rate to drive growth

As of June 30, 2020, CRMLS expanded its commercial PMS to 25 cities across 17 provinces, municipalities, and autonomous regions in China. The number of shopping malls under mgt rose from 17 in 2017 to 31 in 1H20, while GFA under mgt increased from 2.403mn sqm in 2017 to 3.954mn sqm in 1H20. During the 2017-1H20, CRMLS mainly expanded the PMS business by obtaining new engagements for shopping malls developed or owned by the CR Group and CR Land. CRMLS will also expand the services to independent third parties through an asset-light business model. By leveraging its brand name and market influence, CRMLS endeavors to acquire potential customers, including small- and mid-sized property developers, enterprises, and other institutions. CRMLS will continue to offer comprehensive services, including both COS and PMS to shopping malls, to increase its market influence.

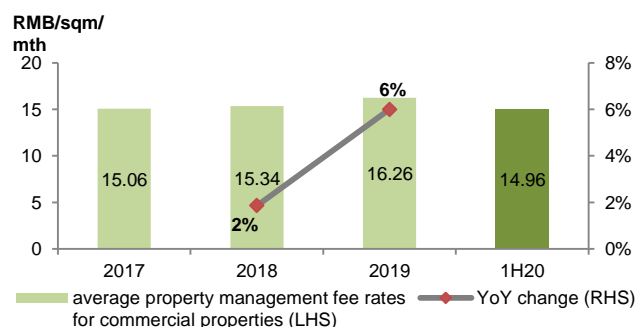
During the 2017-1H20, CRMLS's property mgt fees for shopping malls are charged on a lump-sum basis with reference to the practice of shopping malls mgt. Starting from 2H20, CRMLS has revised its property mgt contracts with property developers and property owners to change the revenue model from a lump-sum basis to a commission one to align with the industry practice. The contract term for property mgt is generally three years. Average mgt fee for shopping malls increased by 6%YoY to RMB 16.26/sqm in 2019, primarily due to an increase in new shopping malls under mgt with more favorable pricing terms. The decrease in 1H20 was mainly due to mgt fee concessions granted to certain shopping malls affected by the COVID-19 pandemic.

Exhibit 23: Number of shopping malls and GFA under mgt for shopping mall PMS and other services



Source(s): The Company, ABCI Securities

Exhibit 24: Average mgt fee for shopping malls



Source(s): The Company, ABCI Securities

Shopping mall CSS: rising rental income during the contract term

As of June 30, 2020, CRMLS had two shopping mall subleasing projects- Luzhou MIXONE and Buji MIXONE, with gross leasable areas of 53ksqm and 68ksqm. CRMLS has also entered into a CSS agreement with the property owner of Lanzhou MIXC in Aug 2020. Lanzhou MIXC, located in Lanzhou, Gansu province, is expected to open in 2H21. The estimated GFA is ~157k sqm. CRMLS charges tenants rents and property mgt fees, and pays an agreed amount of rent to property owners, or shares the operating income generated from the leased properties with property owners with a pre-determined rate. Based on the current accounting standard, CRMLS obtained subleasing rights of Shenzhen Buji MIXONE in late July 2017 and has started recognizing the mall as investment properties and related lease liabilities. It will register any changes in fair value of investment properties and finance cost related to the lease liabilities.

Exhibit 25: Shopping malls under subleasing contracts

Project	Brand	Opening date	Location	Contract effective date	Contract term	Occupancy %	Gross leasable area 000 sqm
Luzhou MIXONE (Phase I) 瀘州萬象匯一期	MIXONE	Nov-15	Luzhou	Apr-14	18	97.0	53
Buji MIXONE (布吉萬象匯)	MIXONE	Apr-18	Shenzhen	Jul-17	25	94.0	68

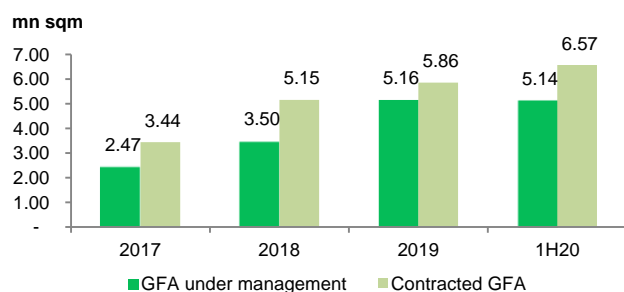
Source(s): The Company, ABCI Securities

Office: COS revenue starts in 2H20

As of June 30, 2020, CRMLS provided property mgt and related services to 73 office building projects with an aggregate GFA under mgt of 5.1mn sqm. The office buildings under mgt are primarily located in first/ second-tier cities and other cities with strong economic potentials in Greater Bay Area (GBA), Yangtze River Delta, and Beijing-Tianjin-Hebei. CRMLS managed to grow the percentage of GFA under mgt for office building projects developed by independent third-party property developers from 1.3% in 2017 to 4.6% in 2019. The average mgt fee for office buildings developed by CR Land/ CR Group rose 16%YoY to RMB 14.51/sqm/mth in 2019 primarily due to a higher fee rate charged for the newly delivered high-end office buildings located in Beijing and Shenzhen in 2019. Nonetheless, a 3% decline from the FY19 level to RMB 14.11/sqm/mth was recorded in 1H20 due to COVID-19 pandemic.

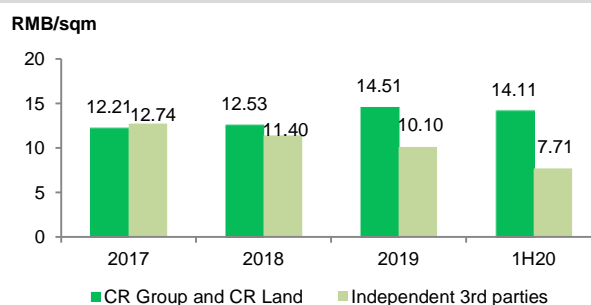
Since 2H20, CRMLS has begun to provide COS, including tenant sourcing, asset mgt, operational services, and opening services, to office buildings. As of Nov 2020, CRMLS entered into COS contracts for 29 office building projects with an aggregate GFA of 1.757mn sqm.

Exhibit 26: GFA under mgt and contracted GFA for office buildings under PMS



Source(s): The Company, ABCI Securities

Exhibit 27: Average mgt fee for office buildings



Source(s): The Company, ABCI Securities



Exhibit 28: PMS contracts of office building in operation as at June 2020

Region	No. of projects	GFA
		000sqm
South China Region	22	1,714
East China Region	16	1,108
North China Region	17	1,206
West China Region	7	549
Central China Region	6	380
Northeast China Region	51	184
Total	73	5,141

Source(s): The Company, ABCI Securities

Exhibit 29: COS contracts of office building in operation as at Nov 2020

Region	No. of projects	Contracted GFA
		000sqm
South China Region	6	862
North China Region	12	427
East China Region	6	239
Central China Region	2	82
Northeast China Region	2	75
West China Region	1	72
Total	29	1,757

Source(s): The Company, ABCI Securities



Residential property mgt services (RPMS): Growing along with CR Land and CR Group

Overview

CRMLS's RPMS consists of three major sub-segments:

■ PMS

Property mgt services for residential and other properties consist of:

- (iii) Security- The security services primarily include access mgt , patrolling, electronic access control, manned guard stations, video surveillance, carpark mgt , visitor mgt and emergency response.
- (iv) Cleaning and greening- CRMLS provides general cleaning, waste clearance, pest control, and greening and gardening services. Cleaning and greening services are provided mainly through subcontractors.
- (v) Repair and maintenance- The scope of property repair and maintenance services typically covers (i) common area equipment and facilities, such as elevators, escalators, and central air conditioning systems, (ii) fire and safety facilities, such as fire extinguishers and fire alarm systems, (iii) utility facilities, such as power supply and distribution systems and water supply and drainage systems, and (iv) other buildings and ancillary facilities and equipment. Renovation and furnishing mgt services and fire extinguishing equipment checking and inspection services are also provided.

■ VASPD

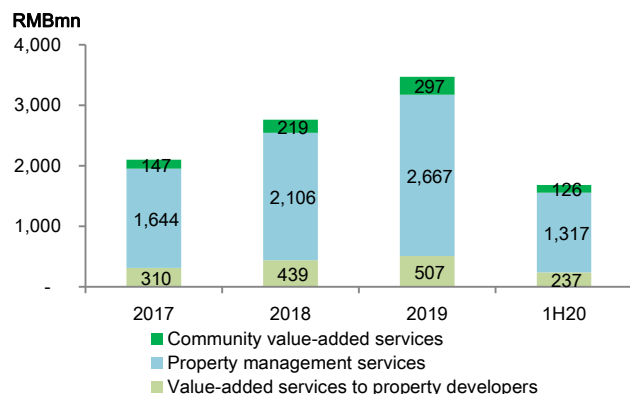
- (v) Consultancy Services- CRMLS offers consultancy services to property developers to address their needs that arise during the early stage of their property development. CRMLS advises on overall property planning and design, such as public facilities and equipment installation, service quality control, and provision of IoT smart property mgt, to optimize property design and facilitate daily PMS.
- (vi) Preliminary Preparation Services- CRMLS participates in the preliminary preparation of the properties before the provision of PMS commences. Before delivering the property, CRMLS set up a property mgt preparation team and provided a range of preparation services, including organizing construction site supervision, assisting project preparation, and coordinating project handover.
- (vii) Pre-delivery Marketing Services- CRMLS helps property developers with their sales and marketing activities at property sales venues.

■ CVAS

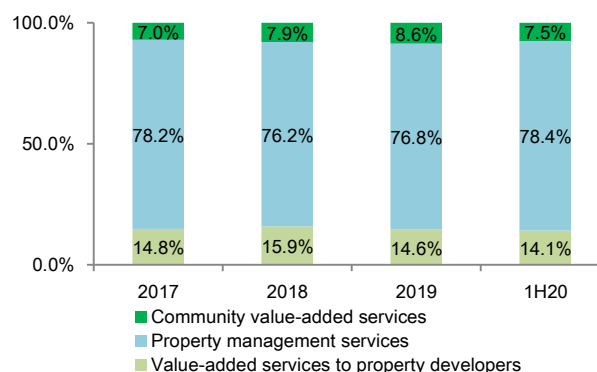
- (i) Community Living Services

- *Common area services* – Following the PMS contract, CRMLS is authorized to operate and rent out common areas such as advertising spaces and collect service fees on behalf of property owners with the owners' consent and within limits stipulated by the PRC law. CRMLS also uses the common area such as outdoor common venues of managed communities to organize cultural activities and collect corporate sponsorship fees.
- *Renovation services* – CRMLS offers renovation services to property owners and residents, including decoration and furnishing for new units, furniture delivery, and refurbishment of old units. CRMLS generally collaborates with third-party merchants and charges them a fixed service fee or a certain percentage of income from such services;
- *Other community services* – CRMLS provides other community services, such as retails and home delivery services, via “JOY LIFE” mobile app and membership program. CRMLS also operates community clubs to provide residents with the convenience of social networking, entertainment, and sports.

- (ii) Brokerage and Asset Services- CRMLS offers brokerage services for second-hand home sales, new unit sales, and home leasing. Upon closing a successful home sale or lease transaction, a commission from property owners or buyers on a pre-negotiated percentage of the contracted value or a monthly rent is charged.

Exhibit 30: RPMS revenue by service type


Source(s): The Company, ABCI Securities

Exhibit 31: Revenue contributions of different service types in RPMS


Source(s): The Company, ABCI Securities

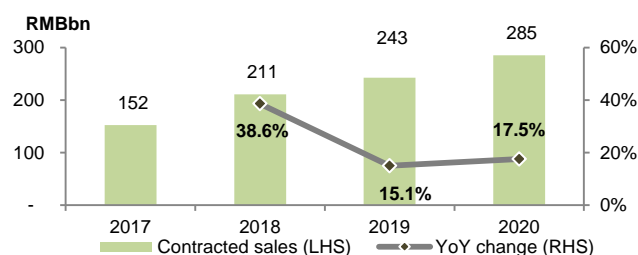
PMS: Parent's contracted sales to drive GFA growth

CR Land, independent third parties, and other properties of CR Group are the key growth drivers:

Parental support: Driven by new project inflow from the CR Group, CR Land, and third-party developers, CRMLS's managed GFA under RPMS rose from 61.1mn sqm in 2017 to 92.1mn sqm in 2019, implying a 23% CAGR during the period. CR Land's fast growing contracted sales provide an expanding pipeline for CRMLS. According to CR Land's annual report, contracted sales increased 15.1% YoY to RMB 243bn while contracted GFA rose 10.5% YoY to 13.25mn sqm in FY19. Despite the COVID-19 pandemic, the growth rate of CR Land's contracted sales grew 17.5% YoY to RMB285bn while contracted GFA rose 7.1% YoY to 14.19mn sqm in 2020. As of June 2020, CR Land had a total landbank of 71.09mn sqm. Fast-growing contracted sales resulted in undelivered contracted GFA of 34.35mn sqm for RPMS as at June 2020, representing 35% of total GFA under mgt for RPMS (Jun 2020: 97.5mn sqm). CRMLS's tender success rate for properties developed by CR Group/ CR Land was 100.0% during 2017-1H20.

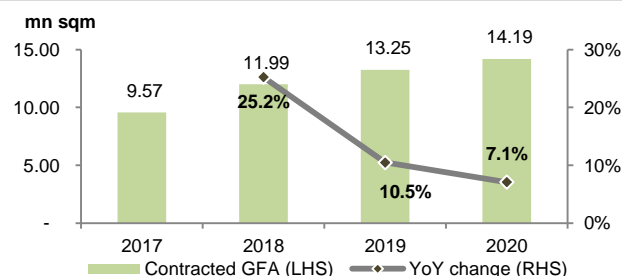
- **Independent third parties:** Revenue and GFA under mgt from independent third-party developers has grown substantially since 2017. GFA under mgt from independent third-party developers under RPMS increased 63%YoY to 17.2mn sqm in 2019, representing 19% of total GFA under mgt of RPMS. Tender success rates for managing residential properties developed by independent third-party property developers were approximately 63.2%, 50.0%, 76.5%, and 54.5% in 2017-1H20. Besides project tendering, CRMLS also grew its portfolio by M&A by acquiring 1.957mn sqm, 4.989mn sqm, and 0.673mn sqm in GFA under mgt during 2017-19. However, those acquisitions are mainly related to the 65 SOE Reform projects, commonly known as "Three Supplies and Property mgt (三供一业) projects", transferred from Dongfeng Motor Corporation, China Aerospace Science and Industry Corporation and China Aerospace Science and Technology Corporation etc, that normally entail a lower fee rate. As a result, the average mgt fee for residential properties developed by independent third parties decreased by 21% YoY to RMB 1.19/sqm/mth in 2018 but rebounded subsequently to RMB 1.67/sqm in 1H20.
- **Other properties from CR Group:** CRMLS also plans to undertake engagements with different CR Group properties, such as industrial parks and factories. While residential properties constitute a predominant portion of its property portfolio, CRMLS also provides PMS to public facilities such as stadiums, parks, and industrial parks, which accounted for 3.6% of revenue from PMS or 2.9% of GFA under mgt for residential and other properties in 1H20.

Exhibit 32: CR Land's contracted sales



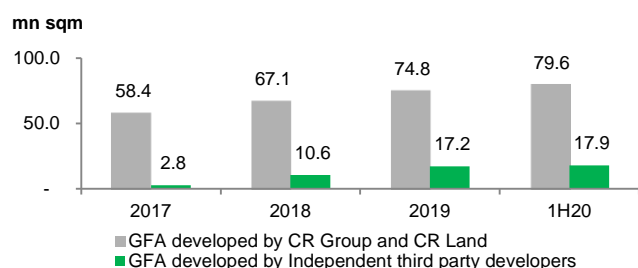
Source(s): CR Land's HKEX announcement, ABCI Securities

Exhibit 33: CR Land's contracted GFA



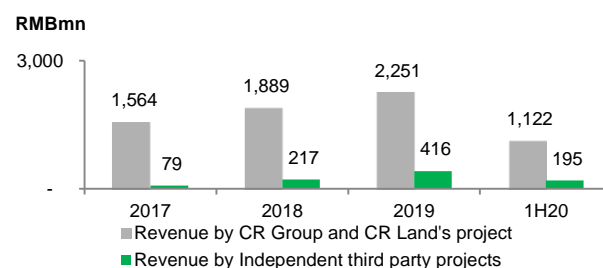
Source(s): CR Land's HKEX announcement, ABCI Securities

Exhibit 34: Total GFA under mgt from residential and other properties developed by CR Group/ CR Land and independent third-party developers



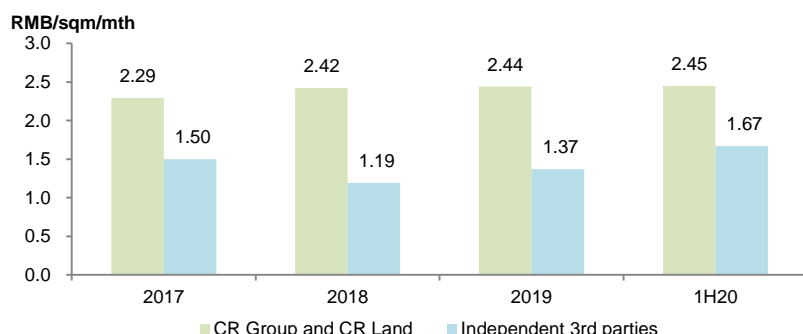
Source(s): The Company, ABCI Securities

Exhibit 35: PMS revenue from residential and other properties developed by CR Group/ CR Land and independent third-party developers



Source(s): The Company, ABCI Securities

Exhibit 36: CRMLS's average mgt fee rate of residential properties by developer



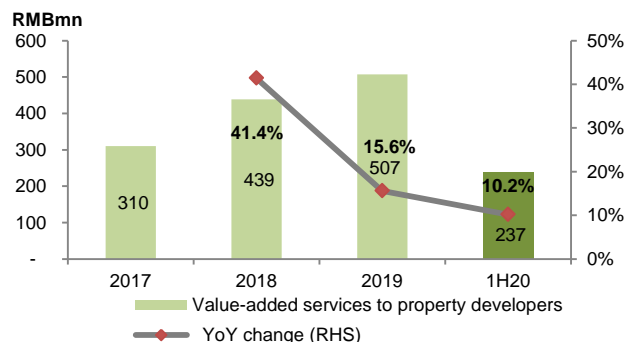
Source(s): The Company, ABCI Securities

VASPD: Riding on increasing presales activities of CR Land

Driven by growing presales activities of CR Land, revenue from VASPD increased from RMB 310mn in 2017 to RMB 507mn in 2019, implying a CAGR of 28% and a 10% YoY growth to RMB 237mn in 1H20. We believe providing such services to property developers would help CRMLS cultivate relationships and facilitate subsequent property mgt engagements. CRMLS typically charges fees for property preliminary preparation services and consultancy services on a lump-sum basis or at a fixed rate, which is calculated based on the GFA under mgt, the project cycle, the nature and scope of the services, the number and positions of the staff, and the size, location, and positioning of the properties involved. CRMLS charges pre-delivery marketing service fees on a commission basis.



Exhibit 37: Revenue from VASPD

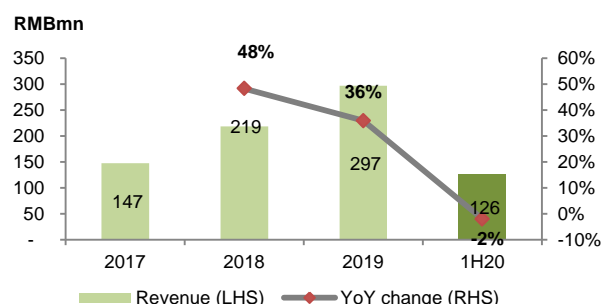


Source(s): The Company, ABCI Securities

CVAS: fast growth with higher margins

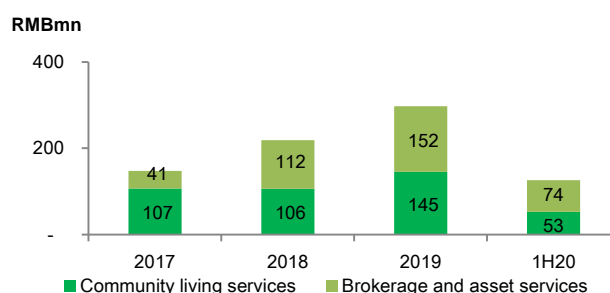
Driven by expanding GFA under mgt of residential and other properties, revenue generated from CVAS increased by 48%YoY to RMB219mn in 2018 and 36%YoY to RMB 297mn in 2019, faster than the 32%YoY and 26%YoY growth for the revenue from RPMS segment during 2018 and 2019. In 1H20, the gross margin of CVAS was 33.2%, much higher than 10.9% for PMS, and 20.9% for VASPD. We believe faster growth of CVAS revenue will improve the overall margin of the RPMS segment.

Exhibit 38: Revenue from CVAS



Source(s): The Company, ABCI Securities

Exhibit 39: Revenue from CVAS by service type



Source(s): The Company, ABCI Securities

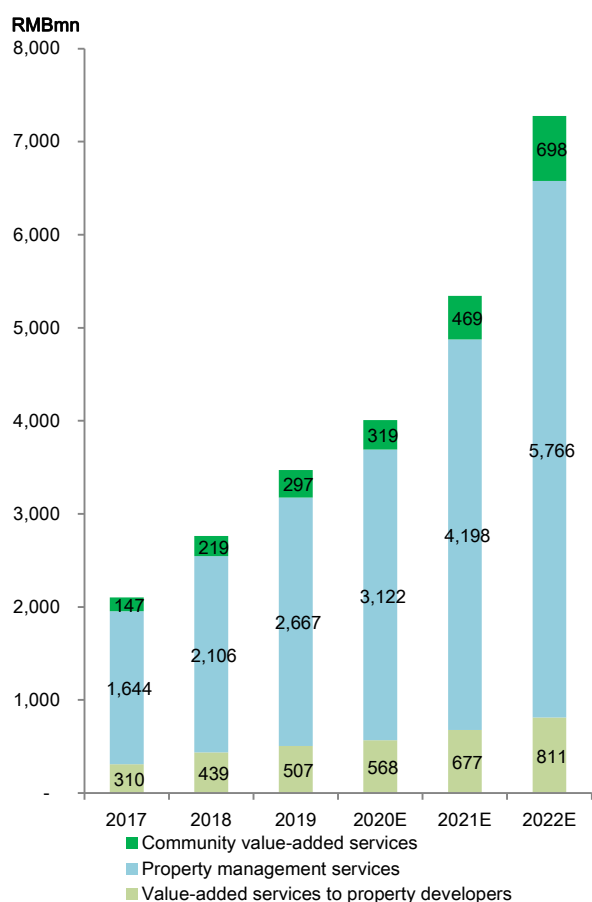
Earnings forecasts

Core profit to expand at 83% CAGR over 2020E-22E

We expect revenue to grow at a 30% CAGR in 2020E-22E on 1) expanding GFA under mgt and 2) introduction of COS business for shopping malls in 1H20 and office buildings in 2H20. We forecast GFA under mgt for residential and other properties, shopping malls, and offices to grow at a CAGR of 37%, 43% and 26% in 2020E-22E on the growing number of new projects from CR Land and third parties. PMS revenue for shopping malls, however, will drop in 2020E and 2021E as CRMLS converts all lump-sum contracts into the commission-based ones. However, the new COS revenue should more than compensate for the drop in PMS revenue on shopping malls.

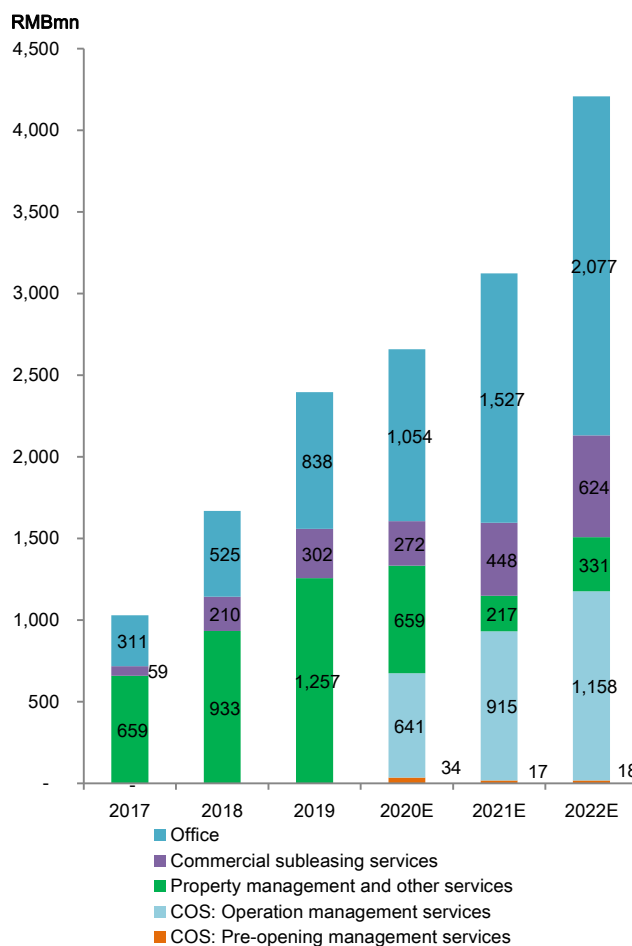
We expect gross margin to increase steadily from 23.6% in 2020E to 33.2% in 2022E due to 1) higher-margin COS business, 2) post-COVID-19 recovery, and 3) conversion of lump-sum contracts to commission basis for shopping malls. Based on the growing revenue and improving gross margin, we forecast core profit to increase from RMB 648mn in 2020E to RMB 2,160mn in 2022E, representing 83% CAGR in 2020E-22E.

Exhibit 40: RPMS revenue breakdown



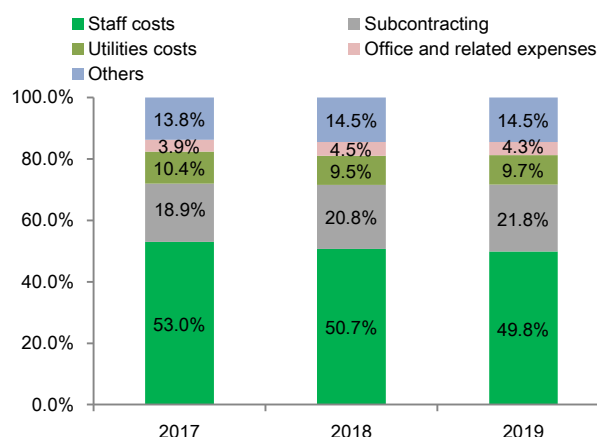
Source(s): The Company, ABCI Securities estimates

Exhibit 41: COPMS's revenue breakdown



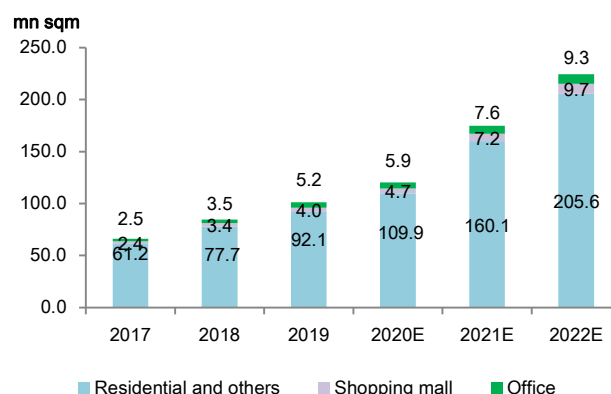
Source(s): The Company, ABCI Securities estimates

Exhibit 42: CRMLS's cost of sales breakdown



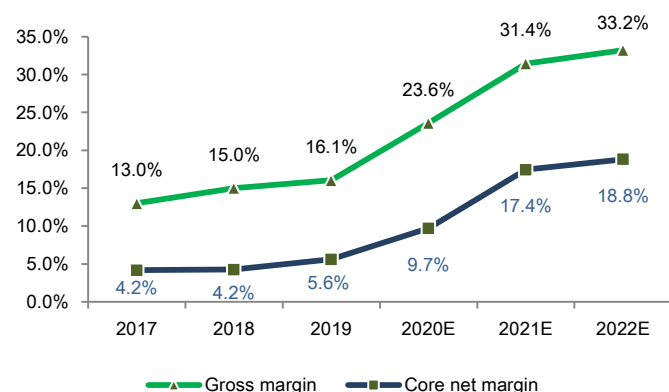
Source(s): The Company, ABCI Securities

Exhibit 43: CRMLS's GFA under mgt breakdown



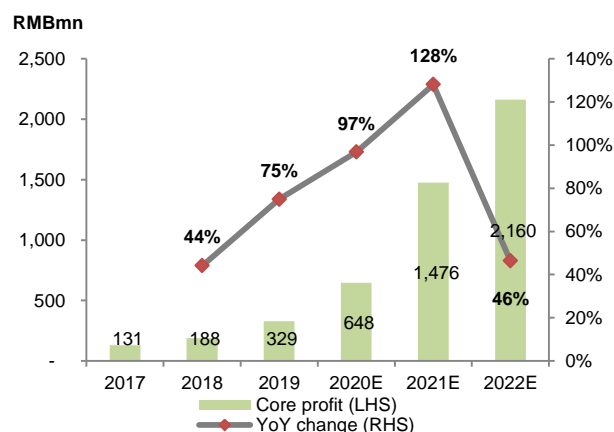
Source(s): The Company, ABCI Securities estimates

Exhibit 44: Gross and core net margins



Source(s): The Company, ABCI Securities estimates

Exhibit 45: CRMLS's net profit

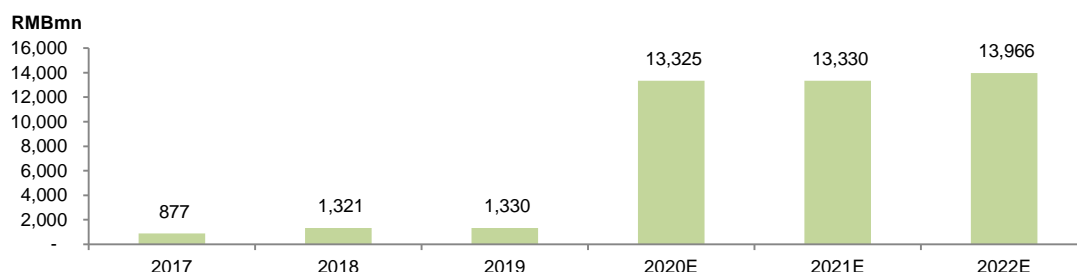


Source(s): The Company, ABCI Securities estimates

A net cash company

CRMLS has been in a net cash position since 2017. Driven by its healthy level of free cash flow from the business, we expect net cash balance to reach RMB 13,966mn by 2022E.

Exhibit 46: Net cash balance (end of period)



* Net cash= total cash- gross debt

Source(s): The Company, ABCI Securities estimates



Exhibit 47: CRMLS's 1H20 financial performance

P&L	1H20	1H19	YoY Chg	Balance sheet	June-20	Dec-19	HoH %
	RMBmn	RMBmn	(%)		RMBmn	RMBmn	
Revenue	3,134	2,641	19	Gross debt	-	-	na
Cost of Sales	(2,379)	(2,166)	10	Cash	970	1,330	(27)
Gross Profit	755	475	59	Net Cash	970	1,330	(27)
Gross Margin (%)	24.1	18.0	6.1ppt				
Marketing expenses	(20)	(29)	(33)	Revenue breakdown	1H20	1H19	YoY Chg
Administrative expense	(264)	(188)	40		RMBmn	RMBmn	
EBIT	472	257	83	Total revenue	3,134	2,641	18.7
EBIT Margin (%)	15.0	9.7	5.3ppt	- RPMS	1,681	1,538	9.2
Other income	62	23	168	PMS	1,317	1,195	10.2
Other expenses, net	(2)	(3)	(39)	VASPD	237	214	10.7
Changes in fair value of IP	(30)	20	(255)	CVAS	126	129	(2.0)
Finance cost	(33)	(32)	4	- COPMS	1,453	1,102	31.9
Profit before tax	468	265	77	Shopping malls	1,005	714	40.8
Tax	(130)	(73)	78	COS- Pre-opening mgt services	18	-	na
Profit after tax	339	192	76	COS- Operation mgt services	273	-	na
Core profit	361	178	103	PMS	594	569	4.5
				CSS	121	145	(16.9)
				Office	448	388	15.4
Operating statistics	1H20	FY19	HoH Chg	Gross margin	1H20	1H19	YoY Chg (ppt)
GFA Under mgt	106.6	101.2	5.3	Overall	24.1%	18.0%	6.1
- Residential and others	97.5	92.1	5.9	- RPMS	14.0%	11.9%	2.1
- Shopping malls	4.0	4.0	0.0	PMS	10.9%	8.1%	2.8
- Office	5.1	5.2	(0.3)	VASPD	20.9%	19.3%	1.6
Contracted GFA	142.4	127.9	11.3	CVAS	33.2%	34.5%	(1.3)
- Residential and others	131.8	118.1	11.7	- COPMS	35.8%	26.5%	9.3
- Shopping malls	4.0	4.0	0.0	Shopping mall	36.0%	25.4%	10.6
- Office	6.6	5.9	12.1	Office	35.3%	28.5%	6.8
COS							
GFA under mgt	5.61	NA					
Contracted GFA	5.61	NA					

Source(s): The Company, ABCI Securities

Initiate BUY with TP HK\$50.50 based on DCF

DCF valuation based on an 8% WACC

In our view, a substantial proportion of CRMLS's revenue is determined by PM agreement generating recurring income over 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 and long-term value supported by fast revenue and net profit growth.

The DCF-derived model TP for CRMLS (with a WACC of 8% and 2% terminal growth) is HK\$ 50.5, which translates into 65.1x/44.5x P/E and 6.8x/6.1x P/B for 2021E/2022E.

Exhibit 48: Sensitivity of the Group's DCF-derived TP to changes in WACC

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

Source(s): ABCI Securities estimates



The comparative approach

We consider the sizeable, listed PMCs (with GFA under mgt >100mn sqm) in China, including Country Garden Services (6098 HK), Poly Property Services (6049 HK), China Overseas Properties, to be CRMLS's peers; the smaller-sized Powerlong Commercial Mgt (9909 HK), however, is also a comparable peer for its shopping mall mgt business. CRMLS is now trading at 56.9x 2021 P/E as compared to the peer trading average at 39.1x 2021E P/E based on Bloomberg's consensus forecast. While we think CRMLS's share price has factored in the fast GFA and revenue growth for 2020-2021E, further upside will take a longer time horizon as investors begin to look at CRMLS's impressive 2022E financial performance (+46%YoY in core profit), driven further margin enhancement from COS business.

Exhibit 49: Valuation of HK-listed PMCs

		Ticker	Mkt Cap	Share Price	Performance			Valuation								
					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	199.5	69.05	36	29	101	70.5	62.4	43.9	0.3	0.4	0.6	23.8	16.5	13.0
2	EPSCG	6666 HK	176.9	16.72	na	83	2	149.6	57.7	39.0	0.0	0.4	0.6	79.0	15.8	12.1
3	CRMLS	1209 HK	103.1	44.15	na	26	61	184.4	96.7	56.9	0.0	0.3	0.5	58.8	6.4	5.9
4	Sunac Services	1516 HK	73.1	23.20	na	37	48	167.9	99.1	49.1	0.0	0.3	0.7	238.9	8.1	7.2
5	A-Living	3319 HK	44.9	34.00	(1)	(2)	29	31.2	21.9	15.9	1.6	2.3	3.1	6.1	5.4	4.6
6	Ever Sunshine	1995 HK	37.9	22.70	61	33	224	127.3	86.5	53.0	0.2	0.3	0.6	27.0	21.7	16.0
7	Poly Property Development	6049 HK	31.9	57.60	2	(6)	31	53.0	37.7	29.6	0.5	0.7	0.8	4.2	3.9	3.5
8	Greentown Services	2869 HK	27.6	8.61	(1)	(10)	13	32.9	32.5	25.3	1.0	1.2	1.5	3.5	3.9	3.6
Small/mid-sized PMCs (Market cap <HK\$30bn)																
1	S-Enjoy	1755 HK	16.5	20.20	5	13	47	49.3	31.0	20.8	1.1	1.6	2.4	14.8	10.8	8.0
2	KWG Living	3913 HK	16.7	5.12	(8)	26	(17)	29.3	25.3	19.5	1.0	1.2	1.6	10.0	8.3	6.3
3	Powerlong CM	9909 HK	18.2	9.08	NA	43	(20)	66.0	39.4	24.8	0.0	0.8	1.2	32.2	5.0	4.4
4	CCNL	9983 HK	15.6	23.40	14	(2)	157	58.3	45.9	31.1	1.0	1.1	1.2	7.6	7.1	6.2
5	Languang Justbon	2606 HK	10.1	8.03	11	(28)	(4)	25.9	20.6	13.1	0.0	1.5	2.3	16.3	3.1	2.7
6	Aoyuan Healthy	3662 HK	6.8	38.10	5	8	(28)	13.1	9.8	7.4	2.3	3.0	4.0	2.3	2.0	1.7
7	Kaisa Prosperity	2168 HK	3.7	5.13	(3)	3	(14)	18.0	13.1	8.5	2.1	3.0	4.4	3.7	3.1	2.4
PMC Avg					8	16	39	65.2	41.8	26.9	0.8	1.3	1.9	31.5	7.4	6.0
- Large PMCs					19	24	64	102.1	61.8	39.1	0.4	0.7	1.1	55.2	10.2	8.2
- Small/mid-sized PMCs					3	9	14	34.1	24.6	16.7	1.3	2.0	2.7	11.1	5.2	4.2

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

Exhibit 50: FY19 peer comparison by GFA (Large PMCs/ shopping mall operators)

	Country Garden Services (6098 HK)			Poly Property Services (6049 HK)			China Overseas Property (2669 HK)			Powerlong CM (9909 HK)			CRMLS (1209 HK)		
	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg
GFA comparison															
GFA under mgt (mn sqm)	182	276	52%	191	287	51%	141	151	7%	16.6	18.5	12%	84.6	101.2	20%
- Residential	173	263	52%	116	139	20%	NA	NA		10.2	11.5		75.9	89.4	18%
- Shopping malls and Offices	9	14	52%	7	8	19%	NA	NA		6.4	7.0		8.7	11.8	35%
- Public and others	-	-		68	140	105%	NA	NA		-	-		1.8	2.7	44%
% as total GFA under mgt															
- Residential	95%	95%	0%	61%	48%	-12%	NA	NA		62%	62%	1%	90%	88%	-1%
- Shopping malls and Offices	5%	5%	0%	3%	3%	-1%	NA	NA		38%	38%	-1%	10%	12%	1%
- Public and others	-	-		36%	49%	13%	NA	NA		-	-		2%	3%	1%
GFA under mgt (mn sqm)	182	276	52%	191	287	51%	NA	NA		16.6	18.5	12%	84.6	101.2	20%
- Developed by major shareholders/parent group	NA	NA		109	132	20%	NA	NA		NA	NA		67.2	75.1	12%
- Developer by third-party developer	NA	NA		81	155	91%	NA	NA		NA	NA		17.4	26.1	NA
GFA under mgt (%)															
- Developed by major shareholders/parent group	NA	NA		57%	46%	-12%	NA	NA		NA	NA		79%	74%	-5%
- Developer by third-party developer	NA	NA		43%	54%	12%	NA	NA		NA	NA		21%	26%	5%
Contracted GFA (mn sqm)	505	685	36%	362	498	38%	NA	NA		21.7	28.4	31%	100.6	122.0	21%

Source(s): The Company, Powerlong CM, Country Garden Services, Poly Property Services, China Overseas Property, ABCI Securities

Exhibit 51: FY19 peer comparison by financial metric (Large PMCs/ shopping mall operators)

	Country Garden Services (6098 HK)			Poly Property Services (6049 HK)			China Overseas Property (2669 HK)			Powerlong CM (9909 HK)			CRMLS (1209 HK)		
	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg	2018	2019	YoY chg
Financials comparison															
Revenue (RMBmn)	4,654	9,620	107%	4,229	5,967	41%	4,178	5,466	31%	1,200	1,620	35%	4,432	5,868	32%
- RPMS	NA	NA		3,625	4,987	38%	NA	NA		221	285	29%	2,763	3,472	26%
- COPMS#	NA	NA		604	980	62%	NA	NA		980	1,335	36%	1,668	2,397	44%
% as total revenue															
- RPMS	NA	NA		86%	84%	-2%	NA	NA		18%	18%	-1%	62%	59%	-3%
- COPMS	NA	NA		14%	16%	2%	NA	NA		82%	82%	1%	38%	41%	3%
Gross profit (RMBmn)	1,762	3,052	73%	851	1,211	42%	850	1,090	28%	326	428	31%	665	942	42%
Gross Margin (%)	37.9%	31.7%	-6.1%	20.1%	20.3%	0.2%	20.4%	20.0%	-0.4%	27.1%	26.4%	-0.7%	15.0%	16.1%	1.0%
- RPMS	NA	NA		NA	NA		NA	NA		14.0%	12.9%	(1.1%)	11.4%	12.1%	0.7%
- COPMS	NA	NA		NA	NA		NA	NA		30.1%	29.3%	-0.8%	20.9%	21.8%	0.9%
Core net profit (RMBmn)	865	1,671	93%	334	491	47%	403	538	33%	133	208	56%	188	329	75%
Core net margin (%)	18.6%	17.4%	(1.2%)	7.9%	8.2%	0.3%	9.7%	9.8%	0.2%	11.1%	12.8%	1.7%	4.2%	5.6%	1.4%
	Dec18	Dec19	YoY chg	Dec18	Dec19	YoY chg	Dec18	Dec19	YoY chg	Dec18	Dec19	YoY chg	Dec18	Dec19	YoY chg
Gross debt (RMBmn)	-	-	NA	-	-	NA	-	-	NA	634	-	NA	-	-	
Cash (RMBmn)	3,874	6,926	79%	1,812	6,509	259%	2,399	2,496	4%	1,040	2,616	152%	1,321	1,330	1%
Net debt/(cash) (RMBmn)	(3,874)	(6,926)	79%	(1,812)	(6,509)	259%	(2,399)	(2,496)	4%	(406)	(2,616)	544%	(1,321)	(1,330)	1%
Total Equity (RMBmn)	2,330	5,680	144%	693	5,122	639%	862	1,129	31%	230	1,587	590%	667	1,032	55%

For Poly Property Services, revenue from COPMS represents PM revenue from non-residential properties only

Source(s): The Company, Powerlong CM, Country Garden Services, Poly Property Services, China Overseas Property, ABCI Securities

Exhibit 52: 1H20 peer comparison by GFA (Large PMCs/ shopping mall operators)

	Country Garden Services (6098 HK)			Poly Property Services (6049 HK)			China Overseas Property (2669 HK)			Powerlong CM (9909 HK)			CRMLS (1209 HK)		
	1H19	1H20	YoY chg	1H19	1H20	YoY chg	1H19	1H20	YoY chg	1H19	1H20	YoY chg	1H19	1H20	YoY chg
GFA comparison															
GFA under mgt (mn sqm)	217	319	47%	260	317	22%	143	158	10%	16.9	18.6	10%	93.3	106.6	14%
- Residential	NA	NA		121	150	24%	NA	NA		10.6	11.6		83.3	94.3	13%
- Shopping malls and Offices	NA	NA		7	9	23%	NA	NA		6.4	7.0		7.8	9.1	17%
- Public and others	NA	NA		132	158	20%	NA	NA		-	-		2.3	3.2	40%
% as total GFA under mgt															
- Residential	NA	NA		47%	47%	1%	NA	NA		62%	63%	0%	89%	88%	-1%
- Shopping malls and Offices	NA	NA		3%	3%	0%	NA	NA		38%	37%	0%	8%	9%	0%
- Public and others	NA	NA		51%	50%	-1%	NA	NA		-	-		2%	3%	1%
GFA under mgt (mn sqm)	217	319	47%	260	317	22%	17	19	10%	16.9	18.6	10%	93.3	106.6	14%
- Developed by major shareholders/parent group	172	234	35%	112	137	22%	NA	NA		NA	NA		74.3	84.5	14%
- Third parties	44	86	93%	148	180	21%	NA	NA		NA	NA		19.0	22.1	16%
GFA under mgt (%)															
- Developed by major shareholders/parent group	NA	NA		43%	43%		NA	NA		NA	NA		80%	79%	0%
- Third parties	NA	NA		57%	57%		NA	NA		NA	NA		20%	21%	0%
Contracted GFA (mn sqm)	584	746	28%	455	493	8%	NA	NA		24.6	29.8	21%	127.9	142.4	11%

Source(s): The Company, Powerlong CM, Country Garden Services, Poly Property Services, China Overseas Property, ABCI Securities

Exhibit 53: 1H20 peer comparison by financial metric (Large PMCs/ shopping mall operators)

	Country Garden Services (6098 HK)			Poly Property Services (6049 HK)			China Overseas Property (2669 HK)			Powerlong (9909 HK)			CRMLS (1209 HK)		
	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%	2,822	3,601	28%	2,414	2,850	18%	749	869	16%	2,641	3,134	19%
- RPMS	NA	NA		2,364	2,946	25%	NA	NA		128	168	32%	1,538	1,681	9%
- CPMOS#	NA	NA		458	655	43%	NA	NA		621	700	13%	1,102	1,453	32%
% as total revenue															
- RPMS	NA	NA		84%	82%	-2%	NA	NA		17%	19%	2%	58%	54%	-5%
- CPMOS	NA	NA		16%	18%	2%	NA	NA		83%	81%	-2%	42%	46%	5%
Gross profit (RMBmn)	1,378	2,333	69%	667	734	10%	485	512	5%	198	255	29%	475	755	59%
Gross Margin (%)	39.2%	37.2%	-2.0%	23.6%	20.4%	-3.2%	20.1%	18.0%	-2.1%	26.4%	29.3%	2.9%	18.0%	24.1%	6.1%
- RPMS	NA	NA		NA	NA		NA	NA		12.4%	21.9%	9.5%	11.9%	14.0%	2.1%
- CPMOS	NA	NA		NA	NA		NA	NA		29.3%	31.1%	1.8%	26.5%	35.8%	9.3%
Core net profit (RMBmn)	817	1,315	61%	314	400	27%	250	280	12%	87	145	66%	178	361	103%
Core net margin (%)	23.2%	21.0%	-2.3%	11.1%	11.1%	0.0%	10.4%	9.8%	-0.5%	11.6%	16.7%	5.1%	6.7%	11.5%	4.8%
	Dec19	Jun 20	YoY chg	Dec19	Jun 20	YoY chg	Dec19	Jun 20	YoY chg	Dec19	Jun 20	YoY chg	Dec19	Jun 20	YoY chg
Gross debt (RMBmn)	-	3,391	NA	-	-	NA	-	-	NA	-	-	NA	-	-	
Cash (RMBmn)	6,926	9,950	44%	6,509	7,245	11%	2,496	2,450	-2%	2,616	2,950	13%	1,330	970	-27%
Net debt/(cash) (RMBmn)	(6,926)	(6,559)	-5%	(6,509)	(7,245)	11%	(2,496)	(2,450)	-2%	(2,616)	(2,950)	13%	(1,330)	(970)	-27%
Total Equity (RMBmn)	5,680	6,786	19%	5,122	5,964	16%	1,535	1,702	11%	1,587	1,795	13%	1,032	935	-9%

For Poly Property Services, revenue from COPMS represents PM revenue from non-residential properties only

Source(s): The Company, Powerlong CM, Country Garden Services, Poly Property Services, China Overseas Property, ABCI Securities



Risk factors

- **Unable to renew COS/ PMS contracts.** About 15.6% of CRMLS's residential properties, by contracted GFA, will expire by 2021. These are mainly PM contracts with the property owners' association projects, which generally have a fixed term and need to be renewed upon expiration. Generally, agreements without fixed terms will terminate once a property owners' association is formed and a new PMS agreement between such property owners' association and a PMC becomes effective. Failure to renew these contracts may lead to revenue decline.

For the provision of COS for shopping malls, CRMLS generally enters into operational mgt service contracts with property owners with a term of three years, and to a lesser extent, with a term of one year. Regarding PMS contracts for shopping malls and offices, the term is generally three years and 2-5 years, respectively. The retention rate for is 100% during the 2017-1H20 for shopping malls, and 100.0%, 100.0%, 97.3% 96.9% and 97.3% for office in 2017, 2018, 2019, and 1H20, respectively.

Exhibit 54: Expiration schedule of CRMLS's PMS contract for residential properties (June 2020)

	Contracted GFA	
	mn sqm	%
Without fixed terms	78.727	59.7%
Continue to provide service after expiry	21.623	16.4%
<u>With fixed terms</u>		
Year ending Dec 31, 2020	13.418	10.2%
Year ending Dec 31, 2021	7.162	5.4%
Year ending Dec 31, 2022	3.940	3.0%
Year ending Dec 31, 2023 and beyond	6.977	5.3%
Total	131.487	100.0%

Source(s): The Company, ABCI Securities

- **Low cash collection rate in 1H20 for PMS business.** In 2017-1H20, the collection rates for property mgt fees were 90.9%, 91.9%, 92.5% and 74.6%, respectively, for residential and other properties; 99.8%, 96.6%, 100.0% and 81.5%, respectively, for shopping malls; and 97.1%, 95.2%, 94.3% and 75.4%, respectively, for office buildings. Fallen collection rates in 1H20 were mainly because of the impact of the COVID-19 outbreak and the common practice of clients deferring payment of property mgt fees to the second half of the year. Slow cash collection may result in mounting receivables or impairment loss if bad debt occurs.
- **Rising labor costs.** As a result of growing headcounts, the staff costs in cost of sales rose from RMB 1,444mn in 2019, to RMB 2,454mn in 2020, implying a CAGR of 30% during the period. As at June 30, 2020 CRMLS had a total of 26,427 employees.
- **Loss-making contracts.** In 2017, 2018 and 2019 and 1H20, CRMLS had 96, 113, 98, and 102 projects of residential and other properties (excluding certain Three Supplies and Property mgt projects, for which subsidies were received), managed on a lump-sum basis and incurred losses of RMB 80.1 mn, RMB 75.7 mn, RMB 79.2 mn, and RMB 59.2mn, respectively. During the same periods, (1) CRMLS had two, five, seven, and two projects of shopping malls managed on a lump-sum basis, incurring losses of RMB23.5 mn, RMB26.5mn, RMB24.9 mn and RMB4.9 mn, respectively; (2) it had 5, 11, 8 and 5 projects of office buildings managed on a lump-sum basis that incurred losses of RMB9.9 mn, RMB5.6 mn, RMB7.4 mn, and RMB11.0 mn, respectively.



- **Substantial amount of related-party transactions.** Revenue from related parties increased from RMB 975mn in 2017 to RMB 1,425mn (+46% YoY) in 2018, RMB 1,895mn (+33% YoY) in 2019 and RMB 1,131mn (+37% YoY) in 1H20. The percentage of revenue from related parties also rose from 31.1% of total revenue in 2017 to 32.2% in 2018, 32.3% in 2019 and 36.0% in 1H20. Rising revenue contribution from related parties may indicate over-reliance on parent company.

Exhibit 55: Related-party transactions between CRMLS and CR Land/ CR Holdings

(RMBmn)	2017	2018	2019	1H20
RPMS	501	663	818	330
YoY change		32%	23%	3%
PMS	167	232	306	101
YoY change		39%	32%	-8%
VASPD	307	421	486	224
YoY change		37%	16%	11%
CVAS	27	11	26	4
YoY change		-61%	145%	-51%
COPMS	474	762	1,077	802
YoY change		61%	41%	60%
Shopping malls	381	565	723	636
YoY change		48%	28%	94%
Offices	93	197	354	165
YoY change		112%	80%	-5%
Total	975	1,425	1,895	1,131
YoY change		46%	33%	37%
As % of total revenue	31.1%	32.2%	32.3%	36.0%

Source(s): The Company, ABCI Securities

Financial statements

Consolidated income statement (2018A-2022E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E*	2021E*	2022E*
Revenue	4,432	5,868	6,669	8,467	11,483
Cost of services	(3,766)	(4,926)	(5,094)	(5,804)	(7,667)
Gross Profit	665	942	1,575	2,663	3,816
Selling and marketing expenses	(54)	(71)	(86)	(94)	(121)
Administrative expenses	(335)	(432)	(661)	(731)	(949)
EBIT	277	439	828	1,837	2,747
Other income	55	77	102	199	202
Finance expenses	(68)	(64)	(65)	(65)	(65)
Other expenses	(4)	(3)	(63)	(3)	(4)
Fair value gains on investment properties	313	48	-	-	-
Profit before tax	572	497	804	1,969	2,880
Tax	(149)	(132)	(201)	(492)	(720)
Profit after tax	423	365	603	1,476	2,160
Minority interest	-	(0)	-	-	-
Net profit	423	365	603	1,476	2,160
Core profit	188	329	648	1,476	2,160
Per share					
Reported EPS (RMB)	0.26	0.22	0.35	0.65	0.95
Core EPS (RMB)	0.11	0.20	0.38	0.65	0.95
DPS (RMB)	-	-	0.11	0.19	0.28
Payout ratio (%)	0%	0%	30%	30%	30%
BVPS (RMB)	0.40	0.63	5.73	6.18	6.85
Growth %					
Revenue	41.6%	32.4%	13.6%	27.0%	35.6%
Gross Profit	63.4%	41.6%	67.1%	69.1%	43.3%
EBIT	56.2%	58.6%	88.8%	121.8%	49.5%
Core profit	44.1%	74.9%	96.8%	128.0%	46.3%
Margin %					
Gross margin	15.0%	16.1%	23.6%	31.4%	33.2%
EBIT margin	6.2%	7.5%	12.4%	21.7%	23.9%
Core net margin	4.2%	5.6%	9.7%	17.4%	18.8%
Revenue breakdown					
COPMS	1,668	2,397	2,659	3,123	4,208
RPMS	2,763	3,472	4,009	5,344	7,275
Total	4,432	5,868	6,669	8,467	11,483
Key assumptions					
Contracted GFA (mn sqm)	105.8	127.9	161.2	229.5	293.8
- Shopping malls	3.4	4.0	5.4	7.9	10.4
- Office buildings	5.2	5.9	7.7	10.5	13.3
- Residential and others	97.3	118.1	148.1	211.1	270.1
GFA under mgt (mn sqm)	84.6	101.2	120.5	174.8	224.6
- Shopping malls	3.4	4.0	4.7	7.2	9.7
- Office buildings	3.5	5.2	5.9	7.6	9.3
- Residential and others	77.7	92.1	109.9	160.1	205.6

Source(s): The Company, ABCI Securities estimates

Consolidated balance sheet (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E*	2021E*	2022E*
Current assets	3,360	4,623	16,748	17,042	18,164
Bank balances and cash	1,136	605	12,601	12,606	13,242
Restricted cash	185	724	724	724	724
Prepayments and other receivables	1,510	2,599	2,728	3,018	3,504
Trade receivables	423	589	589	589	589
Other current assets	106	106	106	106	106
Non-current assets	2,382	2,478	2,464	3,354	4,062
Property, plant and equipment	180	203	213	223	233
Investment property	2,168	2,218	2,218	2,218	2,218
Prepayments	0	4	4	4	4
Deferred tax assets	10	5	5	5	5
Other non-current assets	23	48	24	904	1,602
Total Assets	5,742	7,101	19,212	20,397	22,226
Current Liabilities	3,685	4,637	4,700	4,851	5,169
Other payables and accruals	2,515	3,290	3,290	3,290	3,290
Contracted liabilities	711	798	798	798	798
Trade payables	383	449	512	663	981
Borrowings	0	0	0	0	0
Other current liabilities	76	101	101	101	101
Non-current liabilities	1,390	1,432	1,432	1,432	1,432
Deferred income	0	8	8	8	8
Lease liabilities	1,214	1,223	1,223	1,223	1,223
Deferred Tax Liabilities	176	202	202	202	202
Total Liabilities	5,075	6,070	6,133	6,284	6,601
Net Assets	667	1,032	13,079	14,113	15,625
Shareholders' Equity	667	1,032	13,079	14,113	15,625
Minority Interest	0	0	0	0	0
Total Equity	667	1,032	13,079	14,113	15,625
Key ratio					
Gross debt (RMB mn)	-	-	-	-	-
Net debt/ (cash) (RMB mn)	(1,321)	(1,330)	(13,325)	(13,330)	(13,966)
Net gearing (%)	-198%	-129%	-102%	-94%	-89%

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	318	492	882	1,901	2,827
Change in Working Capital	908	46	(66)	(139)	(168)
Tax payment	(84)	(82)	(201)	(492)	(720)
Operating Cash flow	1,142	455	615	1,270	1,939
Purchase of PP&E	(80)	(76)	(10)	(10)	(10)
Purchase of intangible assets	-	-	(30)	(943)	(778)
Restricted cash for bank borrowing	(104)	-	-	-	-
Cash advance to related parties	(648)	(1,763)	-	-	-
Repayment of related parties	84	729	-	-	-
Others	20	25	-	-	-
Investing Cash flow	(727)	(1,084)	(40)	(953)	(788)
Repayments of borrowings	-	-	-	-	-
Interest received	(67)	(68)	(65)	(65)	(65)
Equity raised	-	-	11,706	-	-
Other payments	(70)	-	(260)	(443)	(648)
Others	(13)	166	40	196	198
Financing Cash flow	(150)	99	11,420	(312)	(515)
Net cash inflow/ (outflow)	265	(531)	11,996	5	636
Cash- beginning	871	1,136	605	12,601	12,606
Cash- year-end	1,136	605	12,601	12,606	13,242

Source(s): The Company, ABCI Securities estimates

Appendix I- Company background

Exhibit 56: CRMLS's Corporate information

Auditor	Ernst & Young
Headquarter	Block E, China Resources Land Building 18 Dachong 1st Road, Nanshan District Shenzhen PRC
Joint Company secretaries	Mr. LO Chi Lik Peter
Authorised representatives	Mr. LI Xin (李欣先生) Mr. YU Linkang (喻霖康先生)

Source(s): The Company, ABCI Securities

Exhibit 57: Board of directors

Name	Position	Role and responsibilities
Mr. YU Linkang	Executive Director and president	Responsible for the overall mgt of the Group
Mr. WANG Haimin	Executive Director and vice president	Responsible for the overall mgt and property mgt business of the Group
Ms. WEI Xiaohua	Executive Director and vice president	Responsible for the overall mgt and commercial operational service of the Group
Ms. YANG Hongxia	Executive Director and chief financial officer	Responsible for the overall financial mgt of the Group
Mr. LI Xin	Non-executive Director and chairman	Participating in formulation of business plans, strategies and major decisions of the Group through the Board
Mr. Mr. GUO Shiqing	Non-executive Director	Overseeing the financial mgt of the Group
Mr. LAU Ping Cheung Kaizer	Independent non-executive Director	Supervising and offering independent judgment to the Board and serving as chairman/members of certain committees of the Board
Mr. CHEUNG Kwok Ching	Independent non-executive Director	Same as above
Mr. CHAN Chung Yee Alan	Independent non-executive Director	Same as above
Ms. QIN Hong	Independent non-executive Director	Same as above

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 \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%)

Disclosures of Interests

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

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