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China Property Management Sector: Cash flow as truth

Nov 7, 2022



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China Property Management Sector (OVERWEIGHT)
Nov 7, 2022

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China Property Management Sector

Cash flow as truth

- Our cash flow analysis suggests SOE players, Yuexiu Services (6626 HK) and CR Mixc (1209 HK), produced better operating cash flow than private PMCs
- Recovering property sales under policy relaxation to drive VASNPO revenue
- We expect SOE PMCs to speed up acquisition pace in the next 12 months given private developers are selling PMC subsidiaries for debt repayment
- Our top large-cap pick for the sector is **CR Mixc**, based on its strong M&A execution ability as well as healthy sales and rental performance of its parent developer; **Yuexiu Services (YXS)** is our top small-cap pick due to its unique TOD business model and sizeable cash balance.

Corporate governance is key to stock selection. Share price of China's property management (PM) sector dropped 65% YTD driven by concerns over: 1) share placement by parent companies for debt repayment, 2) sizeable related-party transaction to transfer cash to parent companies. Our cash flow analysis suggests SOE players Yuexiu Services and CR Mixc produced better operating cash flow ("OCF") than private PMCs since their parent developers are more financially sound, meaning that these PMCs are less likely to register overdue payment on their outstanding receivables balance. YXS stands out with an operating cash flow-to-core profit ratio of 181% in 1H22, the highest among peers. As of Jun 2022, the aggregate balance of (1) trade receivables and (2) prepayment, deposits & other receivables for YXS and CR Mixc only represented 1.8x-2.3x of 2021 net profit (vs. 4.0x for peers on average), implying a lower risk of substantial receivables impairment provision.

VASNPO revenue to recover for quality SOE players. Based on the 10 largest listed PMCs (by revenue), YoY growth in VASNPO revenue slowed to 4%YoY in 1H22 from 42% YoY in 2021 and 23% YoY in 2020. Gross margin of the segment also fell to 26.9% in 1H22, compared to 30.6% in 2021 and 30.7% in 2020. These metrics reflect deteriorating financials as well as sluggish presales of parent developers, who can no longer support their PM subsidiaries by offering premium prices for services. As policy relaxation takes place, however, a recovery in property sales in 2023 is likely and VASNPO revenue will resume faster growth. In particular, SOE players should see better recovery in VASNPO business as their parent developers continue to gain market shares.

Market consolidation to speed up. According to CIA's forecast, total GFA under mgt of PMCs in the PRC is expected to increase from 29.0bn sqm in 2022 to 35.5bn sqm in 2026, representing a CAGR of 5.2%. Driven by industry consolidation and M&A activities, the top 100 PMCs increased their market share from 32.4% in 2017 to 52.3% in 2021. We expect SOE PMCs to speed up acquisitions in the next 12 months given numerous private developers are selling their PMC subsidiaries for debt repayment.

SOE players are still our top picks. Our large/small-cap picks for the sector are SOE players **CR Mixc/YXS**. CR Mixc differentiates itself from SOE peers by its strong M&A execution ability. The company completed three major acquisitions to add 96mn sqm of GFA under mgt YTD. Its parent developer, CR Land, also delivered impressive operating performance in recent months- rental revenue grew 12%-27%YoY during Jul-Sep 2022 while contracted GFA/contracted sales returned to positive YoY growth for two/four consecutive months as of Sep. We also like YXS for its unique TOD business model and its sizeable cash balance.

Sector Report

Nov 7, 2022

OVERWEIGHT

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Key Data

Avg. 22E P/E (x)	7.1
Avg. 22E P/B (x)	1.1
Avg. 22E Dividend Yield (%)	7.8

Source(s): Bloomberg, ABCI Securities estimates

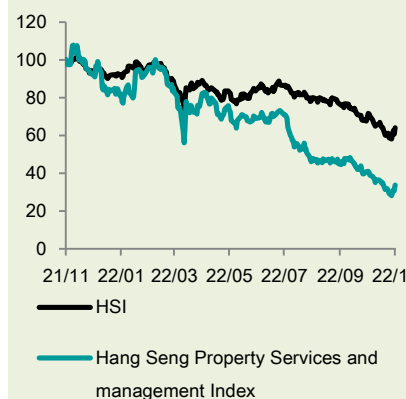
Sector Performance (%)

	Absolute	Relative*
1-mth	(17.56)	(12.18)
3-mth	(29.40)	(9.40)
6-mth	(53.59)	(31.32)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year sector performance (HK\$)



Source(s): Bloomberg, ABCI Securities

Our top picks (data as of Nov 7, 2022)

Company	Ticker	Current Rating	TP (HK\$)	Share price (HK\$)	Upside (%)	FY22E P/E (x)	FY23E P/E (x)	FY22E P/B (x)	FY23E P/B (x)	FY22E Yield (%)	FY23E Yield(%)
CR Mixc	1209	BUY	36.6	27.85	31%	23.6	15.8	3.78	3.24	1.3	1.9
YXS	6626	BUY	4.55	2.56	78%	6.6	4.7	1.09	0.94	4.5	6.4

Remarks: VASNPO= value added services to non-property owners

Source(s): Bloomberg, ABCI Securities estimates



Cash flow analysis – a reflection of corporate governance

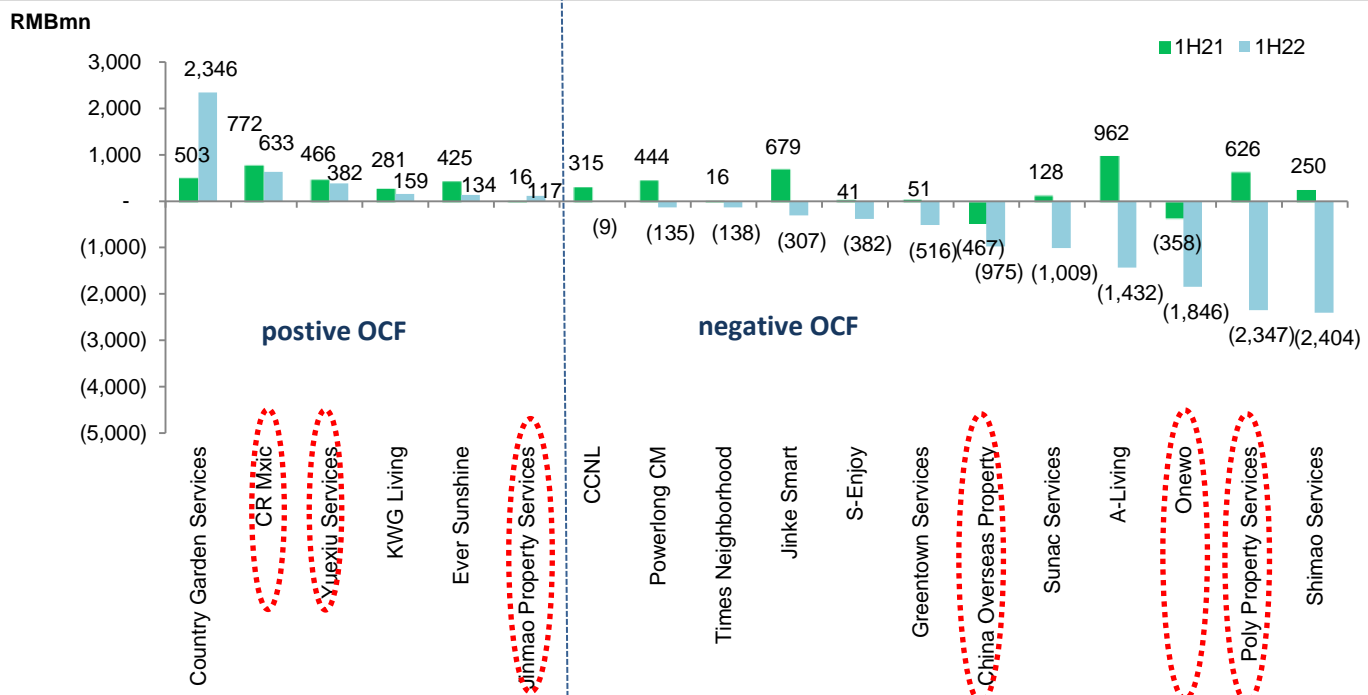
Share price of China PM sector dropped 65% YTD driven by concerns over: 1) share placement by parent companies to cash out for debt repayment, which results in substantial increase in free-float shares, 2) sizeable related-party transactions to transfer cash to parent companies- a sign for reduced operational independence. We believe investors need to be highly aware of corporate governance when evaluating stocks in the sector. While revenue and profit can be easily distorted by related-party transactions, cash flow, in comparison, can better reflect actual earnings in PMCs and a good indicator of corporate governance. In particular, the receivables balance-to-net profit ratio could quantify the downside risk arising from impairment. In our operating cash flow and receivables analysis, SOE players CR Mixc and YXS stand out as outperformers indicative of proper corporate governance.

Operating cash flow (OCF):

Based on the 18 PMCs with 1H22 revenue sizes larger than RMB 1bn, 12 listed PMCs failed to produce a positive OCF in 1H22. PM sector has long been considered a cash-cow business, but credit crisis of the parent developers has impacted these cash-rich subsidiaries. Among the 12 players with a negative OCF in 1H22, only 3 were SOE players. Of the 6 PMCs with a positive OCF, 3 were SOEs, of which YXS showed the highest OCF-to-core profit ratio of 181% in 1H22, reflecting superior working capital mgt. YXS's sizeable home decoration business in CVAS segment that collects cash payment upfront is the key reason behind the PMC's robust cash flow. While many PMCs had an OCF-to-core profit ratio of 100%+ in 1H21, the ratio dwindled to the negative territory in 1H22 as trade receivables rose.

In our view, OCF performance will continue to diverge among the PMCs. Slower payment from parents in the VASNPO segment will continue to be an issue in 2H22 and 2023E for private names, while resumption of positive YoY growth in contracted sales in 2H22 for SOE developers may mean better cash collection for SOE PMCs.

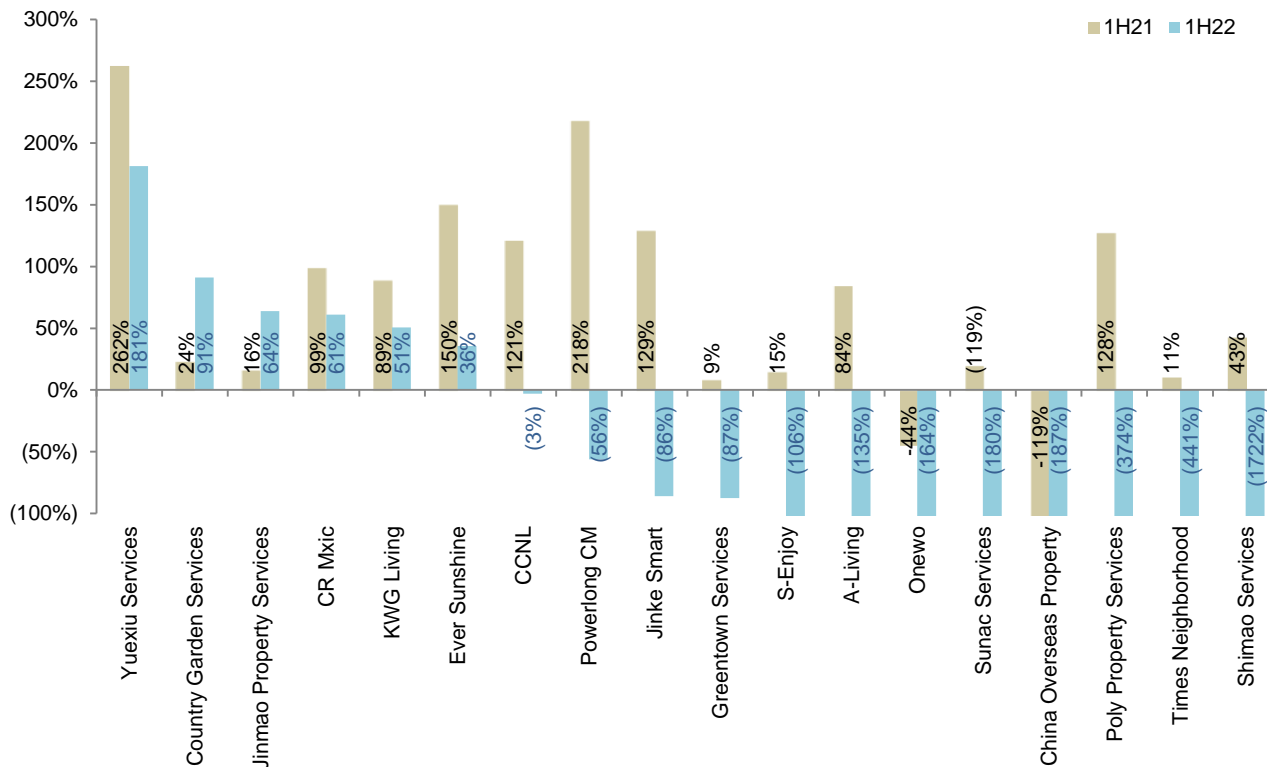
Exhibit 1: Operating cash flow in 1H22



* SOE PMCs circled in red
Source(s): Companies, ABCI Securities



Exhibit 2: Operating cash flow as a percentage of core profit



Source(s): Companies, ABCI Securities

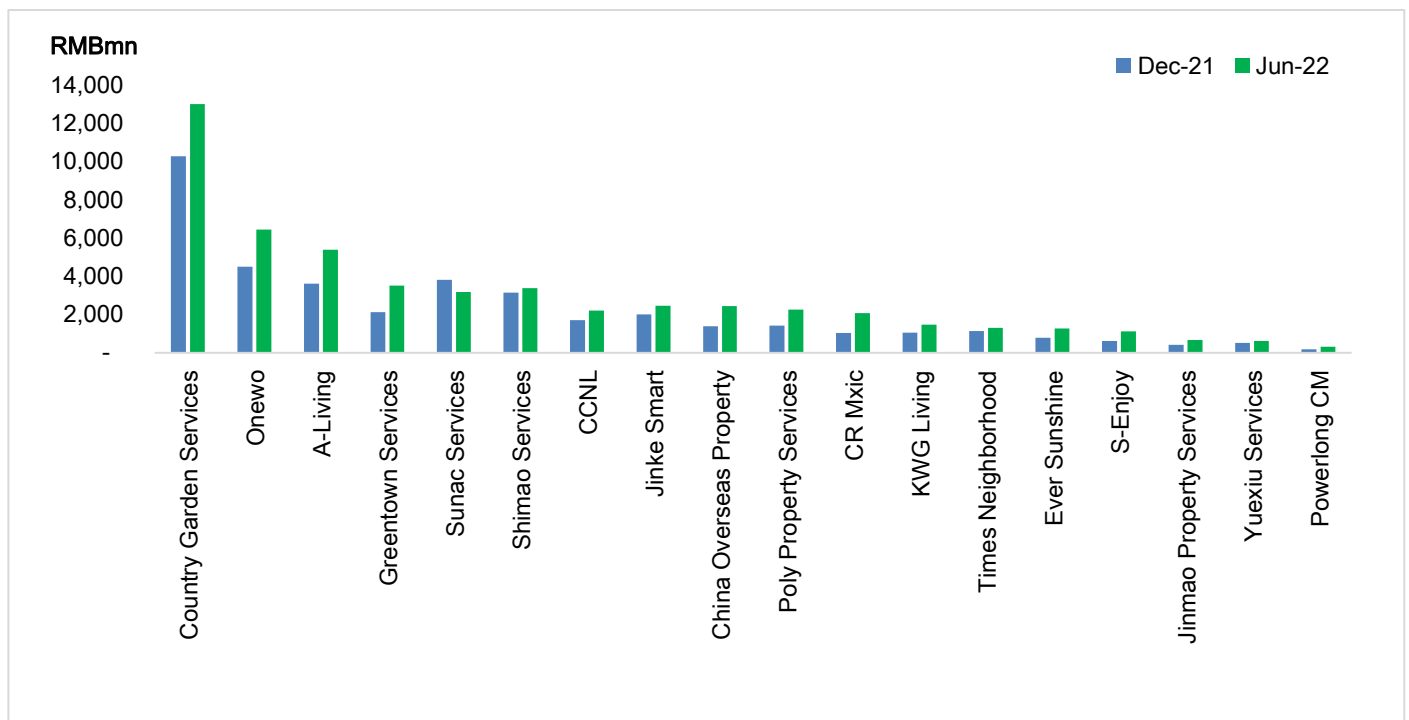
Trade receivables and Prepayment, deposits & other receivables

Rising trade receivables is the main reason for declining cash earnings. Based on our 18 samples, trade receivables rose 33% HoH as of Jun 2022. Apart from slower payments from parent developers, expansion into public projects across the industry also led to higher receivables balance since local governments tend to make payments quarterly or semi-annually.

Increase in prepayment, deposits & other receivables, which are balances not in trading nature (including advances to related parties, deposits for potential acquisitions, etc.), also impaired cash-generating ability of PMCs. E.g., Poly Property Service (6049 HK) paid a deposit of RMB 3bn to parent company to obtain its exclusive carpark agency business. Mounting receivables could result in substantial impairment when the counterparties fail to repay. Should all these trade receivables and prepayment, deposits & other receivables (as of Jun 2022) become bad debts, the impairment provision to be made would be 2.6x-51.2x of 1H22 core profit for the 18 PMCs, or 11.2x on average. The provision for CR Mixc and YXS would only be 2.6x-3.1x, indicating a lower risk of substantial receivables impairment provision.

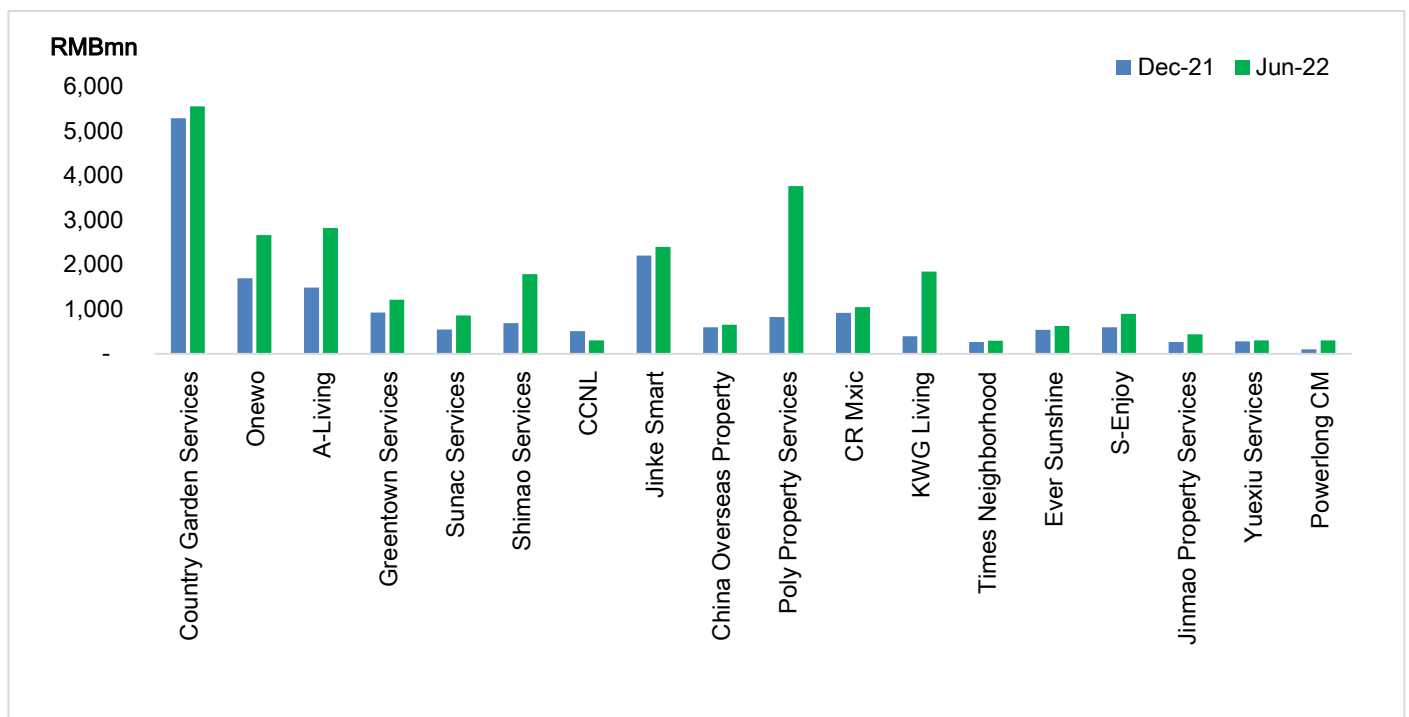


Exhibit 3: Trade receivables (1H22)



Source(s): Companies, ABCI Securities

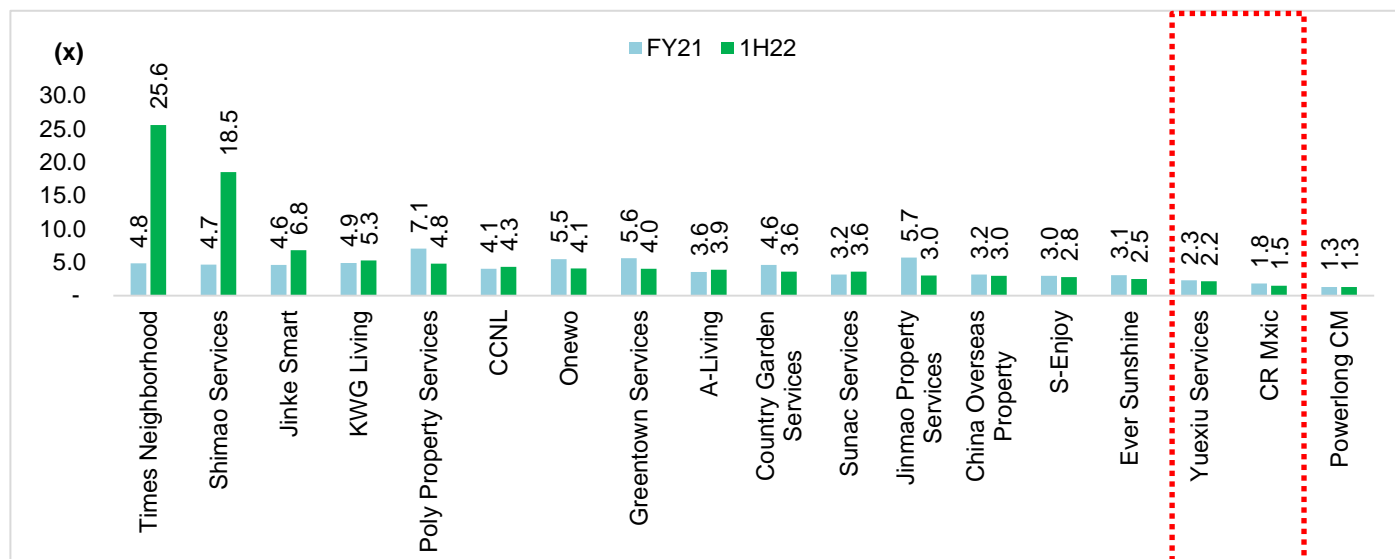
Exhibit 4: Prepayment, deposits and other receivables (1H22)



Source(s): Companies, ABCI Securities



Exhibit 5: Trade receivables and prepayment, deposits and other receivables as a multiple of net profit (FY21 vs 1H22)



* Annualized interim net profit are used for 1H22

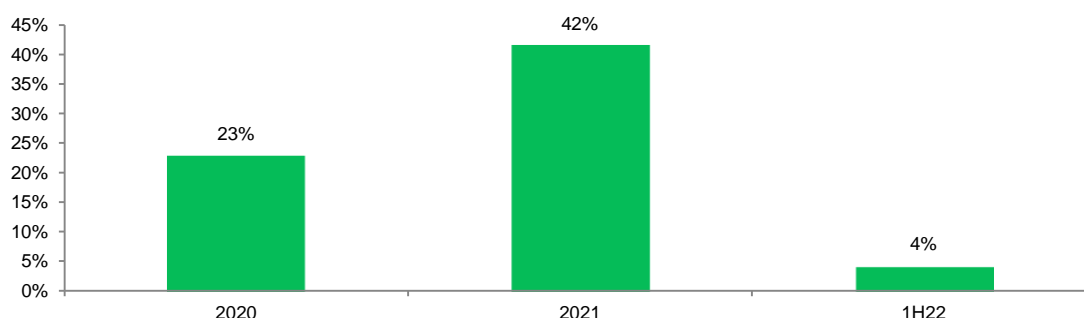
Source(s): Companies, ABCI Securities



VASNPO revenue to recover for quality SOE players

Shrinking VASNPO revenue and margin is another reason for poor share price performance in the PM Sector. In particular, based on the 10 largest listed PMCs by revenue, YoY growth in VASNPO revenue slowed to 4% YoY in 1H22 from 42% YoY in 2021 and 23% YoY in 2020. Gross margin of this segment also fell to 26.9% in 1H22, compared to 30.6% in 2021 and 30.7% in 2020. These figures reflect deteriorating financials as well as sluggish presales activities of parent developers, who can no longer support the PM subsidiaries by offering premium prices for services. However, we believe the situation will ease soon in 2023 on the back of policy-driven recovery in property sales. In particular, SOE players should see better recovery in VASNPO business as their parent developers continue to gain market shares, given better balance sheet and access to funding.

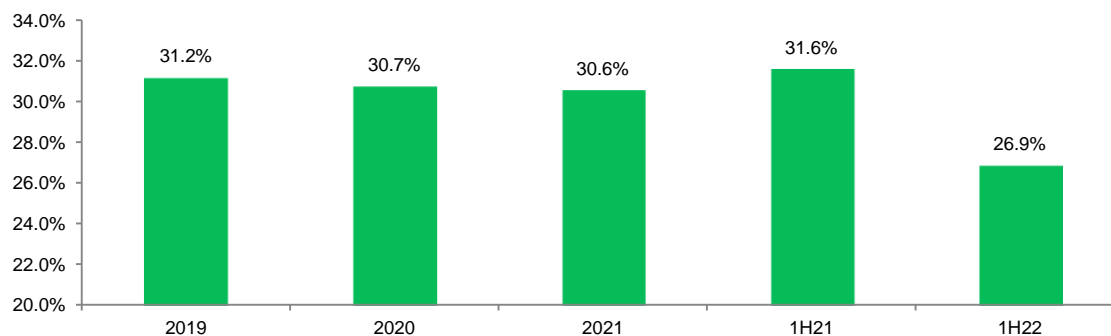
Exhibit 6: VASNPO revenue growth (YoY) for the top 10 listed PMCs *(2020-1H22)



*as defined by revenue

Source(s): Companies, ABCI Securities

Exhibit 7: Gross margin for VASNPO for the top 10 listed PMCs (2019-1H22)



Source(s): PBOC, ABCI Securities

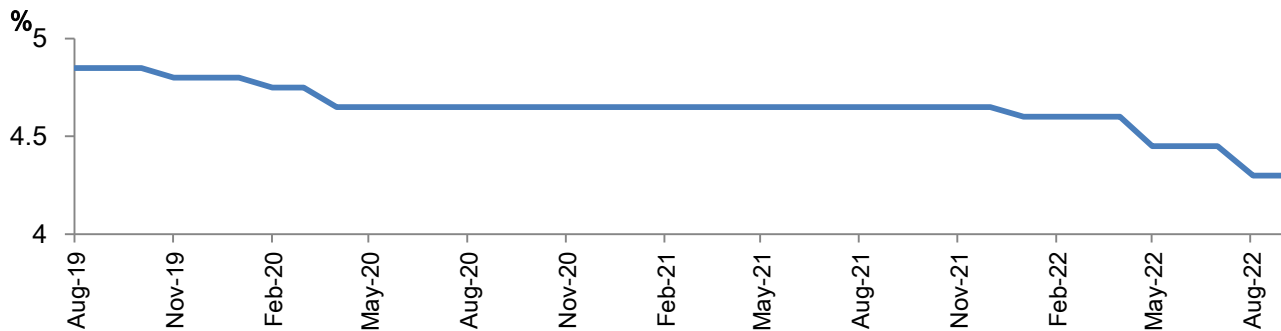
Key reasons supporting our view of property sales recovery in 2023 include:

- 1) Lower interest rate:** On the back of the 35bps interest rate cut in the five-year LPR YTD, average home loan rate declined 1.01ppt to 4.62% in Jun 2022 from 5.63% in Dec 2021.
- 2) Home loans turn attainable:** Apart from reducing mortgage payment due to interest rate cut, first-home buyers and upgraders also enjoy lower down-payments in their first and second home loans for past few months. E.g., Zhanjiang in Guangdong lowered its down payment ratio of first home from 25% to 20%; Suzhou also cut its down payment from 50% to 30% on second-home purchase on the condition that the first-home loan has been fully repaid. Besides, a number of cities, including Tianjin and Zhuhai, have also adjusted their policy in recent months that homebuyers can utilize balance in a parent's pension fund for home purchases.



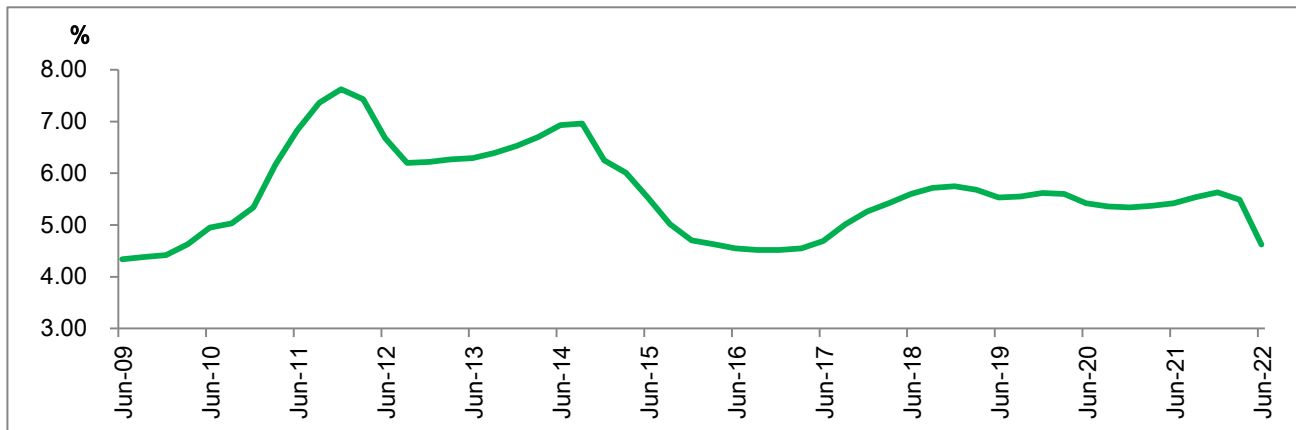
- 3) **Various subsidies by local government:** Local governments are offering various subsidies to home purchasers to stimulate demand. E.g., Harbin government offers one-off subsidies of RMB15k/ RMB20k to families with second or third newborns for home purchases.
- 4) **Recovery trend in recent months:** Recent sales of commodity housing also showed a mild recovery as YoY decline narrowed from -28.2%YoY in Jul to -14.2%YoY in Sep. SOEs will continue to outperform the private developers in sales recovery on homebuyers' concerns over unfinished projects by the latter.

Exhibit 8: Five-year LPR



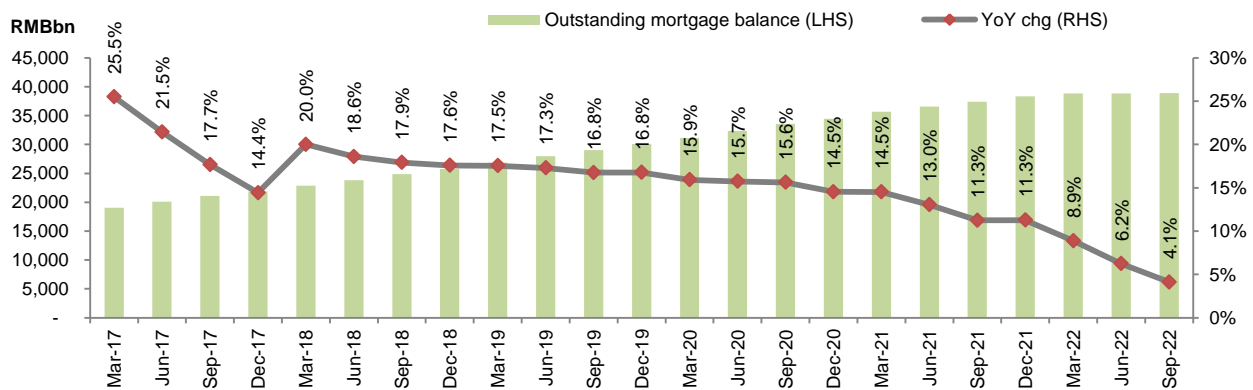
Source(s): PBOC, ABCI Securities

Exhibit 9: Weighted average rate of home loans in Mar 2009 – Jun 2022



Source(s): PBOC, ABCI Securities

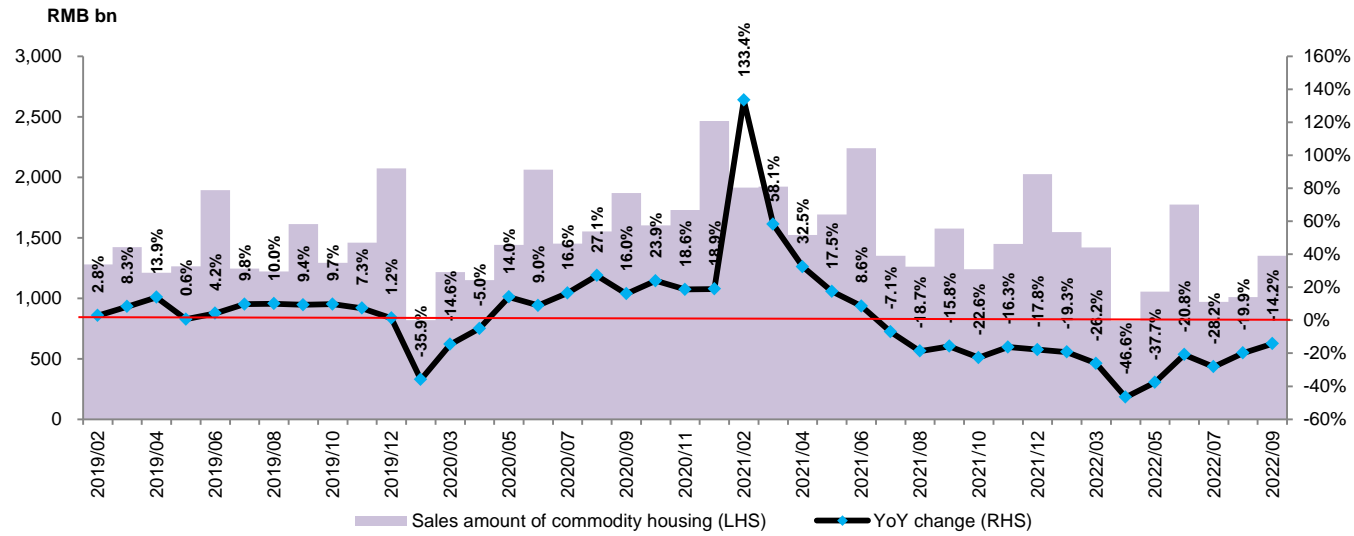
Exhibit 10: Outstanding balance of mortgage loan



Source(s): PBOC, ABCI Securities



Exhibit 11: Sales of new commodity housing



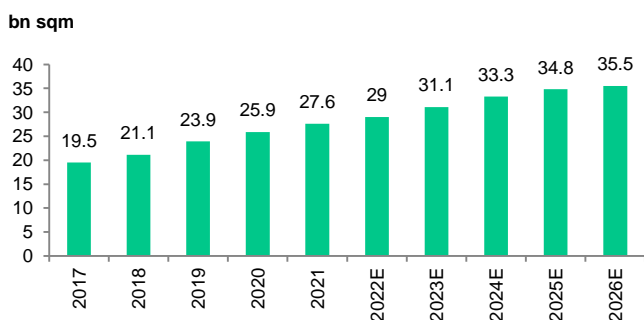
Source(s): NBS, ABCI Securities



Longer-term industry outlook

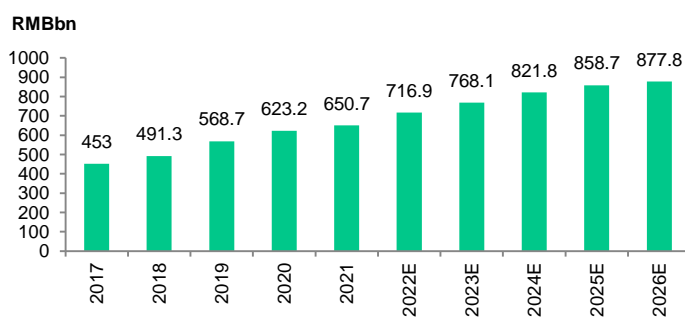
Market consolidation continues: As of Dec 31, 2021, there were over 200,000 PMCs in China, according to CIA. Total GFA under mgt by PMCs increased from 19.5bn sqm in 2017 to 27.6bn sqm in 2021, representing a CAGR of 9.1%. According to CIA's forecast, the expected total GFA under mgt of PMCs in the PRC will increase from 29.0bn sqm in 2022 to 35.5bn sqm in 2026, representing a CAGR of 5.2%. On the back of rising GFA and increasing revenue contribution from VAS, total revenue from PMCs in China will increase from RMB 716.9bn in 2022 to RMB 877.8bn in 2026E, representing a CAGR of 5.2%. Driven by industry consolidation and M&A activities, the top 100 PMCs are increasing their market share from 32.4% in 2017 to 52.3% in 2021. We expect SOE PMCs to speed up acquisition pace in the next 12 months given that private developers are selling their PMC subsidiaries for debt repayment. Sitting with the largest net cash balance of RMB13.87bn within the PM sector, CR Mixc completed three major M&As in YTD.

Exhibit 12: Overall market size of the property mgt industry in China



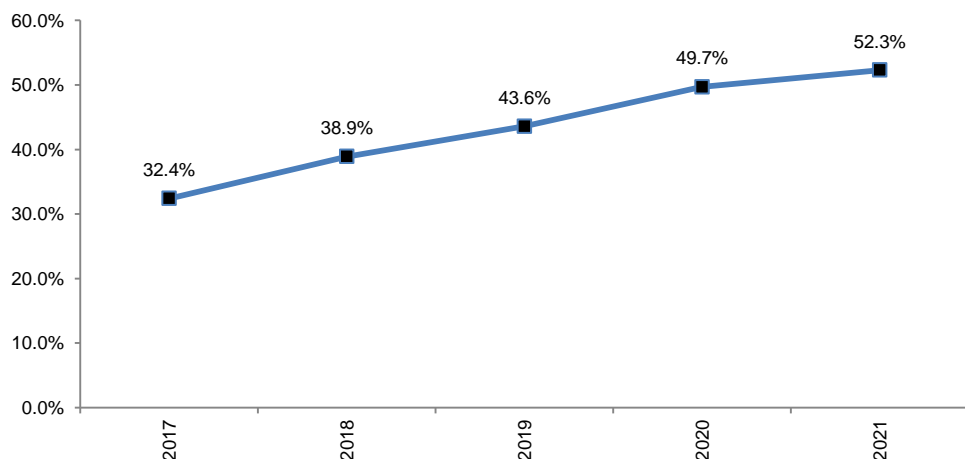
Source(s): CIA, ABCI Securities

Exhibit 13: Total revenue of PMCs in China



Source(s): CIA, ABCI Securities

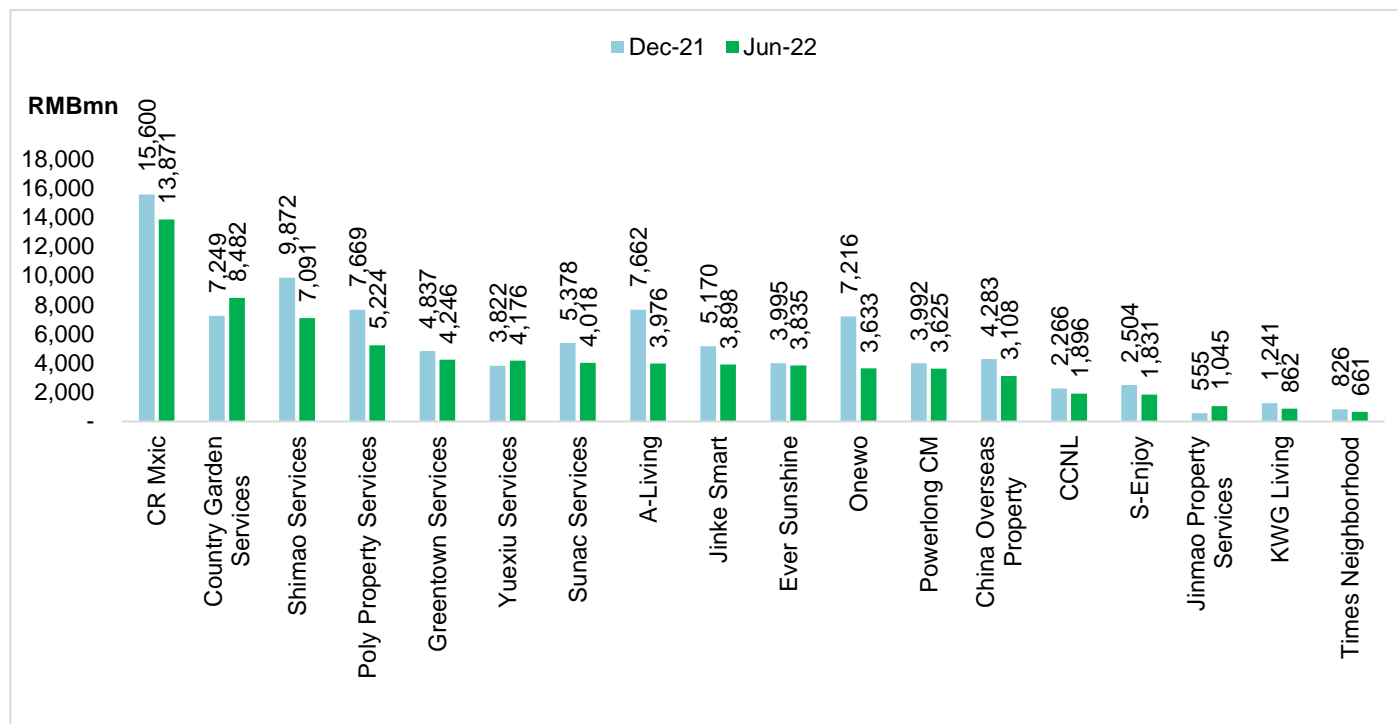
Exhibit 14: Market share of the top 100 PMCs by GFA



Source(s): CIA, ABCI Securities



Exhibit 15: Net cash balance of PMCs



Source(s): CIA, ABCI Securities

Two new rising sub-segments: While the three core business segments (PM business, VASNPO, and Community VAS) represent the majority of total revenue, the PMCs are expanding aggressively into two new areas:

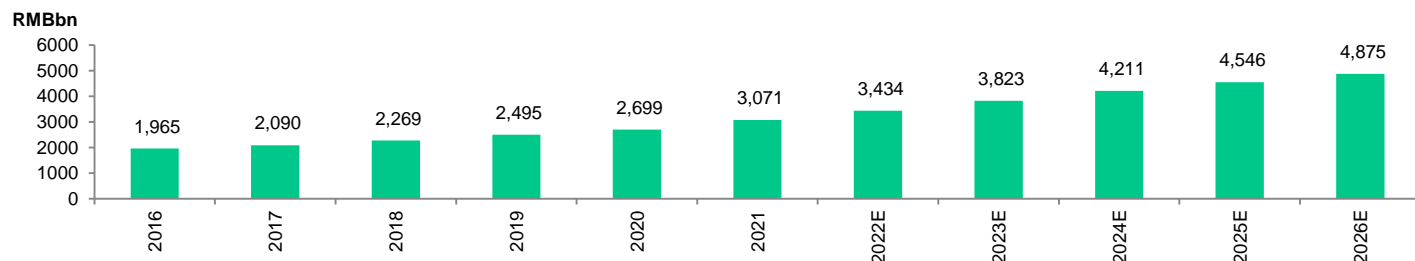
- 1) Home-related asset services**, which include a) home sales and rental services of new homes and existing homes; b) Home decoration & furnishing services such as offering decoration design plan, providing furnishing and construction, construction materials and furniture retail. According to F&S, revenue of home-related asset services is expected to grow from RMB 3,434bn in 2022E to RMB 4,875bn in 2026E, implying a CAGR of 9.2%. The PMCs have aggressively expanded into home decoration in recent years since they can easily reach out to homebuyers of the newly built residential communities under mgt before other competitors. The PMCs also had an advantage in secondary home sales and rental agency business within the communities under mgt. E.g., they can easily identify any vacant units within their managed projects for short-term leasing.
- 2) Urban space integrated services**, which include a) space governance solutions, which mainly include urban cleaning and sanitation services, repair and maintenance of government infrastructure, school, hospital and roads, etc.; b) urban environmental governance solutions, which include technology-enabled water quality control, river system maintenance and preservation, as well as integrated mgt of urban parks; c) old community operation, which is mainly old community mgt and renewal services. According to F&S, revenue of urban space integrated services is expected to grow from RMB 1,164bn in 2022E to RMB 2,260bn in 2026E, implying a CAGR of 18.1%. The key driver of this business segment is increased outsourcing by local government to private services providers offering better service quality.

In our view, SOE players are well-positioned to capture the growth in urban space integrated services given their experience in managing a wide range of public projects and business ties with local governments. In particular, certain residential projects under development by SOE developers, such as Yuexiu Property (123 HK), are complemented by various government facilities such as schools and hospitals. Their PMC subsidiaries could provide better mgt services due to



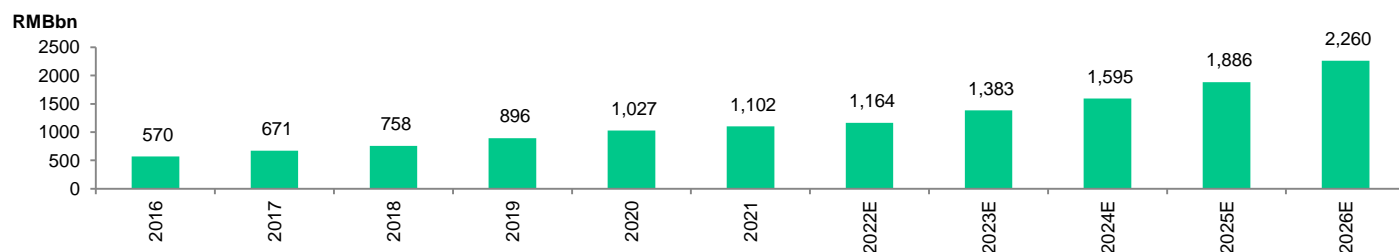
their involvement in the planning and design stage of properties under construction before handover.

Exhibit 16: Total revenue of home-related asset services (2016-21 CAGR: 9.3%; 2022-26E CAGR: 9.2%)



Source(s): F&S, ABCI Securities

Exhibit 17: Total revenue of urban space integrated services (2016-21 CAGR: 14.1% ; 2022-26E CAGR:18.1%)



Source(s): F&S, ABCI Securities

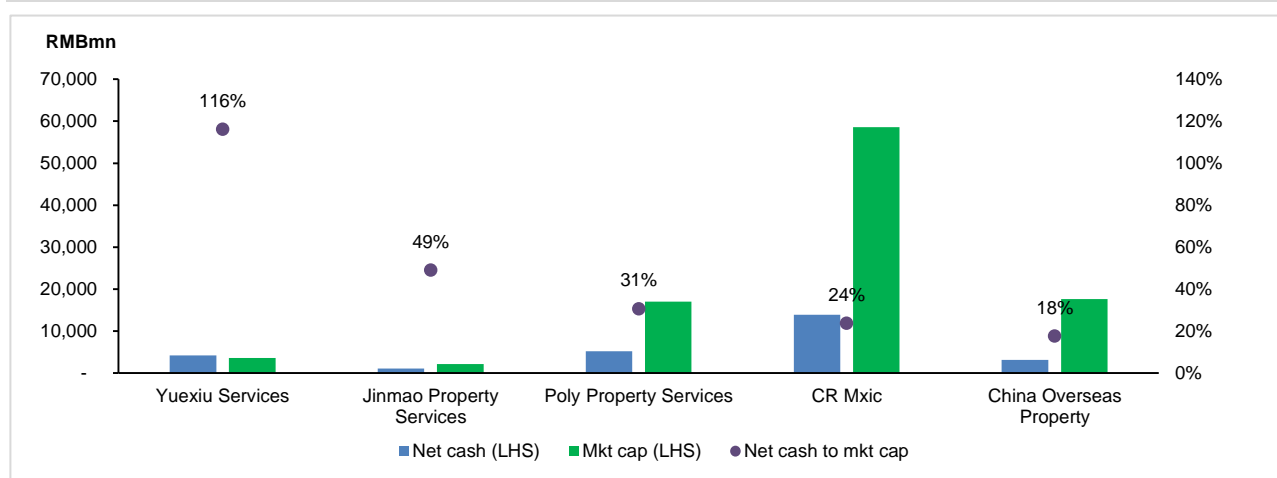


SOE players still our top picks

Apart from defensive parents and better potential in public projects, the cash-to-market cap ratio of SOE players has turned attractive after substantial share price correction. Also, SOE's better corporate governance in general, as reflected in OCFs and receivables, means their cash reserves are less likely to be misappropriated by parent developers. In particular, market cap of YXS has already fallen below its net cash level at Jun 2022 (a net cash-to-market cap ratio at 116%). Valuations of small-cap SOE players have been overcorrected in our view.

While many private PMCs has substantial cash balance as of Jun 2022, misappropriation is always a risk. E.g., cash balance of Evergrande Property Services (6666 HK; suspended) in relation to the deposit pledges of ~RMB 13.4bn that have been enforced by the relevant banks.

Exhibit 18: Net cash to market cap ratio



Source(s): F&S, ABCI Securities

Our sector rating is **OVERWEIGHT** on the back of attractive valuation and GFA recovery led by the SOE players. Our top large-/small-cap picks for the sector are SOE players **CR Mixc /YXS**. CR Mixc differentiates itself from the SOE peers with its strong M&A execution ability. Year-to-date, it has completed three major acquisitions, adding 96mn sqm in GFA under mgt. Its parent developer, CR Land, also delivered impressive performance in recent months- rental revenue grew 12%- 27%YoY in Jul-Sep 2022 and contracted GFA/ contracted sales resumed positive YoY growth for two/four consecutive months as of Sep. We favor YXS for its unique TOD business model and its sizeable cash balance.



Risk factors

- **Uncertain development of COVID:** As China continues to adopt a zero-tolerance COVID strategy, lockdown and other restrictive measures will be enforced whenever infection cases increase- and based on past experience, winter is usually the peak season for COVID transmission. As such, presales and construction activities can be adversely affected. This will translate into weaker revenue from VASNPO and slower GFA under mgt growth for PMC subsidiaries.
- **Credit crisis of private developers may spill over to SOE players:** Bond prices of Country Garden (2007 HK), CIFI (884 HK), and Longfor (960 HK), the three major private developers which managed to fulfill debt repayment amid difficult times, have fallen substantially in recent months. The fear is that credit crisis may spill over to reputable SOE developers, including those with noticeable improvement in contracted sales in the past quarter. In fact, fund managers are likely to take profit on outperformers to lock in return before end of the year. E.g., share prices of SOE players COLI (688 HK), CR Land (1109 HK), and Yuexiu Property (123 HK) dropped 20-30% in Oct 2022, underperforming the HSI (-14.5% in Oct) though they still beat the index on a YTD basis.

Exhibit 19: Share price performance

Stock code		Share price performance	
		Oct	YTD
COLI	688	-26.0%	-20.4%
CR Land	1109	-20.1%	-24.2%
Yuexiu Property	123	-29.5%	-5.5%
Hang Seng Index		-14.5%	-34.4%

Source(s): Bloomberg, ABCI Securities

- **High share price correlations between parent developers and PM subsidiaries:** Share prices of PRC developers are likely to be affected by ongoing credit crisis, which will inadvertently affect share prices of PM subsidiaries given the close business ties. Based on Bloomberg, the share price correlation of parent developers and PM subsidiaries is 0.562 for SOEs vs. 0.776 for private ones. The market believes that profits of the PMCs under private developers rely more heavily on related-party transactions; therefore, share price correlation between the two is higher.

Exhibit 20: Share price correlation between parent and subsidiaries

PM Subsidiary	Stock code (SEHK)	Parent developer	Stock code (SEHK)	Correlation
SOEs				
COP	2669	COLI	688	0.693
CR Mixc	1209	CR Land	1109	0.669
Jinmao Property Services	816	Jinmao China	817	0.575
Poly Property Services	6049	Poly Property Development	600048	0.474
YXS	6626	Yuexiu Property	123	0.401
		SOE Avg		0.562
POEs				
CGS	6098	Country Garden	2007	0.854
Ever Sunshine	1995	CIFI	884	0.787
KWG Living	3913	KWG	1813	0.750
A-Living	3319	Agile	3383	0.715
		POE Avg		0.776

Remarks: Correlation is based on 12-month analysis

Source(s): Bloomberg, ABCI Securities

CR MIXC (1209 HK)

Healthy parent; good M&A prospects

- Year-to-date, CR Mixc secured 96.0mn sqm of GFA under mgt through M&A
- We raise our GFA under mgt assumption by 7.8%-10.6% in 2022-24E on rising PMC disposal by private developers
- Improved outlook for VASNPO segment as parent company CR Land (1109 HK) resumed positive YoY contracted sales growth since Jun 2022
- Maintain **BUY** with revised TP of HK\$ 36.6 (from HK\$ 52.6) as we raise WACC from 8% to 10%

Parent in good health. CR Mixc's parent developer, CR Land (1209 HK), achieved solid growth in rental income and contracted sales in recent months. Rental income (excl. rental relief) rose 12%- 27% YoY during Jul-Sep 2022, while contracted GFA/ contracted sales resumed positive YoY growth for two/ four consecutive months as of Sep. Rising rental income in CR Land would ensure performance in CR Mixc's commercial operation services segment, as part of the revenue is based on a percentage of landlord's rental revenue. Rising contracted sales would also support GFA growth and VASNPO revenue. CR Land has not slashed budget for CR Mixc despite a difficult 1H22 (contracted sales was down 27% YoY) and CR Mixc's VASNPO revenue rose 21% YoY to RMB 412mn.

Raise M&A assumption; maintain BUY with revised TP of HK\$ 36.60. Given the solid progress in M&As, we raise our GFA under mgt assumption by 7.8%-10.6% and our net profit forecasts by 1.6%-3.6% for 2022-24E. However, we lower our TP from HK\$ 52.60 to HK\$ 36.60, as we adjust up WACC from 8% to 10%. CR MIXC remains as our top pick in the PM sector. Maintain **BUY**.

Risk factors: 1) Aggressive M&As may reduce margins; 2) Acquired targets may affect cash flow on slower receivables repayment; 3) Unsuccessful renewal of PM contracts upon expiry; 4) Substantial related-party transactions; 5) Uncertain development of COVID. 6) High share price correlation with CR Land; 7) Possible share disposal of IPO cornerstone investors (at cost: HK\$ 22.3) in future; 8) High intangibles and goodwill balance (~25% of total equity as of Jun 2022) since M&As can be subject to impairment.

Results and Valuation

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	6,779	8,875	13,351	19,055	24,245
Chg (% YoY)	15.5	30.9	50.4	42.7	27.2
Core net profit (RMB mn) ¹	816	1,702	2,508	3,735	5,087
Chg (% YoY)	147.9	108.6	47.3	48.9	36.2
Core EPS (RMB)	0.48	0.75	1.10	1.64	2.23
Chg (% YoY)	142.5	54.1	47.3	48.9	36.2
BVPS (RMB)	5.46	6.08	6.85	8.00	9.56
Chg (% YoY)	773.4	11.4	12.6	16.7	19.5
P/E (x)	53.6	34.8	23.6	15.8	11.6
P/B (x)	4.75	4.26	3.78	3.24	2.71
Core ROE (%)	12.1	13.1	17.0	22.0	25.4
Core ROA (%)	6.2	8.5	11.1	14.8	17.5
DPS (RMB)	0.13	0.28	0.33	0.49	0.67
Yield (%)	0.51	1.06	1.27	1.89	2.58
Net cash (RMBmn)	10,158	15,600	12,797	14,153	16,520

Note: RMB to HK\$= 1.07

¹ Core net profit = profit attributable to owners of the company – (fair value changes of investment properties) x0.75

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Nov 7, 2022

Rating: **BUY**

TP: HK\$ 36.60

Analyst : Kenneth Tung

Tel: (852) 2147 8311

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Share price (HK\$)	27.85
Est. share price return	31.4%
Est. dividend yield	1.3%
Est. total return	32.7%
Previous Rating & TP	BUY; HK\$ 52.60

Previous Report Date 1 Apr 2022

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	46.90/22.25
Issued shares (mn)	2,282.5
Market cap (HK\$ mn)	63,568
3-mth avg daily turnover(HK\$ mn)	72.07
Major shareholder(s) (%):	
CR Land	73.72

Source(s): Bloomberg, ABCI Securities

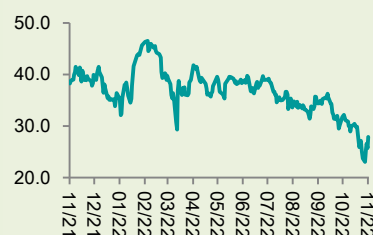
Share Performance (%)

	Absolute	Relative*
1-mth	(13.4)	(2.7)
3-mth	(19.4)	0.5
6-mth	(24.0)	(4.8)

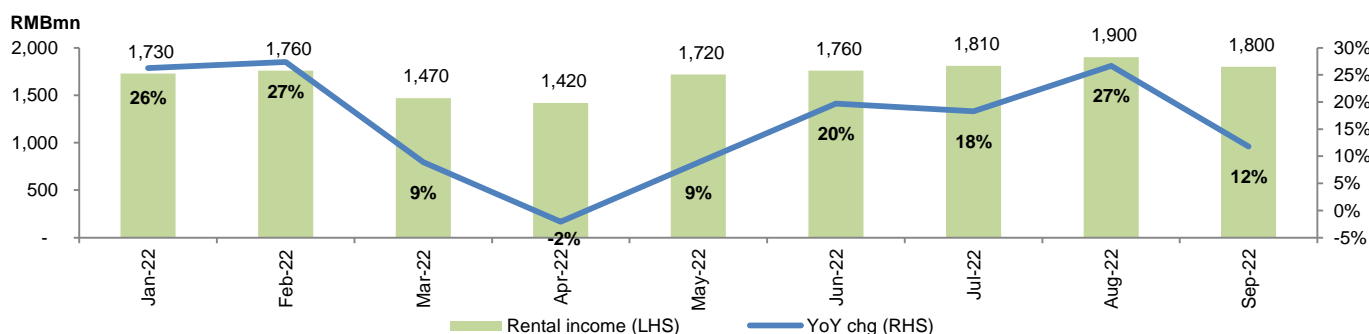
*Relative to HSI

Source(s): Bloomberg, ABCI Securities

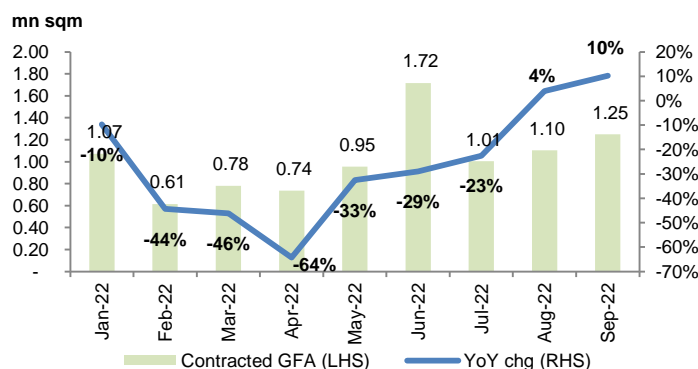
1-Year share performance(HK\$)



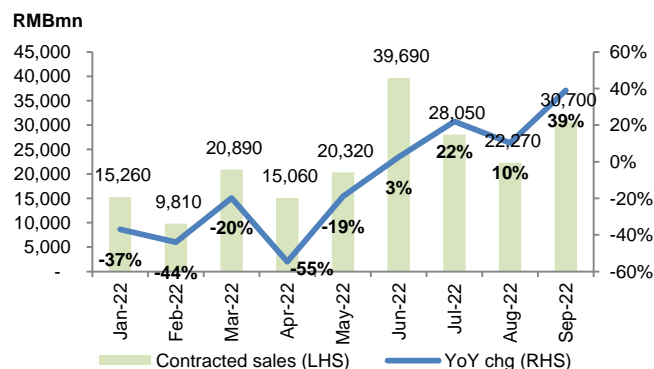
Source(s): Bloomberg, ABCI Securities

Exhibit 1: Rental revenue of CR Land (before rental relief)


Source(s): Company, ABCI Securities

Exhibit 2: Contracted GFA of CR Land


Source(s): CR Land, ABCI Securities

Exhibit 3: Contracted sales of CR Land


Source(s): CR Land, ABCI Securities

Exhibit 4: YTD M&As of CR MIXC

Seller	Yuzhou (1628 HK)	Zhongnan (000961 CH)	Shinsun (2599 HK)	Total
Announcement date	Jan-22	Jan-22	Sep-22	
Consideration (RMBmn)	1,060	2,260	1,037	4,355
Stake	100%	100%	100%	
GFA under mgt (mn sqm)	21.01	51.47	23.5	96.0
Contracted GFA (mn sqm)	31.49	90.88	38.3	160.7
2021 historical P/E	13.95	12.84	9.86	

Source(s): Company, ABCI Securities

Exhibit 5: Changes in TP and profit forecasts

	OLD	NEW	Chg	Reasons
TP (HK\$)	52.6	36.6	-30.4%	- Raise WACC assumption from 8% to 10%
Core profit (RMBmn)				
-2022E	2,468	2,508	1.6%	- Raise GFA under mgt assumption by 7.8% to factor in Shinsun acquisition
-2023E	3,605	3,735	3.6%	- Raise GFA under mgt assumption by 10.6% on improved M&A outlook

Source(s): Company, ABCI Securities estimates

Financial statements

Consolidated income statement (2020A-2024E)

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Revenue	6,779	8,875	13,351	19,055	24,245
Cost of services	(4,952)	(6,117)	(8,938)	(12,592)	(15,548)
Gross Profit	1,827	2,759	4,413	6,464	8,697
Selling and marketing expenses	(50)	(58)	(73)	(91)	(113)
Administrative expenses	(747)	(819)	(1,071)	(1,426)	(1,813)
EBIT	1,030	1,881	3,269	4,947	6,770
Other income and gains	180	523	213	206	225
Share of results of associates	(0)	(2)	-	-	-
Finance expenses	(72)	(76)	(67)	(67)	(67)
Other expenses	(5)	(21)	(5)	(7)	(9)
Fair value gains on investment properties	2	30	-	-	-
Profit before tax	1,135	2,337	3,410	5,079	6,919
Tax	(317)	(610)	(903)	(1,344)	(1,831)
Profit after tax	818	1,726	2,508	3,735	5,087
Minority interest	-	(1)	-	-	-
Net profit	818	1,725	2,508	3,735	5,087
Core profit	816	1,702	2,508	3,735	5,087
Per share					
Reported EPS (RMB)	0.48	0.76	1.10	1.64	2.23
Core EPS (RMB)	0.48	0.75	1.10	1.64	2.23
DPS (RMB)	0.13	0.28	0.33	0.49	0.67
Payout ratio (%)	27%	37%	30%	30%	30%
BVPS (RMB)	5.46	6.08	6.85	8.00	9.56
Growth %					
Revenue	15.5%	30.9%	50.4%	42.7%	27.2%
Gross Profit	93.9%	51.0%	60.0%	46.5%	34.6%
EBIT	134.7%	82.7%	73.7%	51.3%	36.8%
Core profit	147.9%	108.6%	47.3%	48.9%	36.2%
Margin %					
Gross margin	27.0%	31.1%	33.1%	33.9%	35.9%
EBIT margin	15.2%	21.2%	24.5%	26.0%	27.9%
Core net margin	12.0%	19.2%	18.8%	19.6%	21.0%
Revenue breakdown					
COPMS	2,896	3,565	5,100	6,632	8,389
RPMS	3,883	5,310	8,250	12,423	15,856
Total	6,779	8,875	13,351	19,055	24,245
Key assumptions					
Contracted GFA (mn sqm)	160.4	208.9	367.7	460.6	559.2
- Shopping malls	10.1	13.0	24.6	31.8	39.1
- Office buildings	7.3	10.0	12.7	15.2	17.7
- Residential and others	142.9	185.9	330.4	413.6	502.5
GFA under mgt (mn sqm)	118.4	162.4	324.6	423.6	532.4
- Shopping malls	6.1	7.4	20.6	27.9	35.1
- Office buildings	5.7	8.2	9.1	10.9	12.6
- Residential and others	106.6	146.8	294.8	384.9	484.8

Source(s): The Company, ABCI Securities estimates



Consolidated balance sheet (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Current assets	16,332	16,030	14,052	16,327	19,531
Bank balances and cash	10,312	13,698	10,895	12,250	14,618
Restricted cash	367	229	229	229	229
Prepayment and other receivables*	786	923	1,748	2,668	3,504
Trade & bill receivables	822	1,043	1,043	1,043	1,043
Financial assets at fair value through profit or loss	3,848	-	-	-	-
Other current assets	196	138	138	138	138
Non-current assets	2,744	5,562	9,599	10,578	11,567
Property, plant and equipment	260	527	537	547	557
Investment properties	2,234	2,264	2,264	2,264	2,264
Prepayment	86	4	4	4	4
Time deposit	0	2,475	2,475	2,475	2,475
Intangible assets & Goodwill	2	116	4,127	5,096	6,075
Other non-current assets	162	176	193	193	193
Total Assets	19,076	21,592	23,651	26,906	31,098
Current Liabilities	5,055	6,079	6,383	7,023	7,654
Other payables and accruals	2,665	2,807	2,807	2,807	2,807
Contracted liabilities	1,007	1,417	1,417	1,417	1,417
Trade payables	700	839	1,143	1,783	2,415
Borrowings	522	801	801	801	801
Other current liabilities	161	214	214	214	214
Non-current liabilities	1,558	1,624	1,624	1,624	1,624
Other liabilities	13	12	12	12	12
Lease liabilities	1,319	1,278	1,278	1,278	1,278
Deferred Tax Liabilities	226	334	334	334	334
Total Liabilities	6,613	7,703	8,007	8,647	9,278
Net Assets	12,463	13,889	15,644	18,259	21,820
Shareholders' Equity	12,463	13,888	15,643	18,258	21,819
Minority Interest	0	1	1	1	1
Total Equity	12,463	13,889	15,644	18,259	21,820
Key ratio					
Gross debt (RMB mn)	522	801	801	801	801
Net debt/ (cash) (RMB mn)	(10,158)	(15,600)	(12,797)	(14,153)	(16,520)

* Including amount due to related parties

Source(s): The Company, ABCI Securities estimates



Consolidated cash flow statement (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
EBITDA	1,112	1,970	3,427	5,186	7,040
Change in Working Capital	245	818	(522)	(280)	(205)
Tax payment	(254)	(498)	(903)	(1,344)	(1,831)
Operating Cash flow	1,103	2,290	2,003	3,562	5,004
Purchase of PP&E	(207)	(254)	(10)	(10)	(10)
M&As	-	-	(4,185)	(1,207)	(1,249)
Repayment of related parties	2,056	-	-	-	-
Others	(3,783)	1,674	-	-	-
Investing Cash flow	(1,933)	1,419	(4,195)	(1,217)	(1,259)
Interest received	(7)	(9)	(67)	(67)	(67)
Equity raised	11,857	-	-	-	-
Dividend	(668)	(300)	(752)	(1,120)	(1,526)
Others	(645)	(14)	209	199	216
Financing Cash flow	10,537	(323)	(611)	(988)	(1,378)
Net cash inflow/ (outflow)	9,707	3,386	(2,804)	1,356	2,367
Cash- beginning	605	10,312	13,698	10,895	12,250
Cash- year-end	10,312	13,698	10,895	12,250	14,618

Source(s): The Company, ABCI Securities estimate

Yuexiu Services (YXS) (6626 HK) A cash-rich PMC with capable parent

- Encouraging sales performance for YXS's parent, Yuexiu Property, in Sep (+178% YoY) and Oct (+9% YoY).
- Lockdown measures in Guangzhou (GZ) is set to impact parent's sales in Nov as the city contributed ~60% of 1H22 contracted sales. Pent-up demand will be unleashed once such restrictive measures are lifted
- YXS's cash-to-market cap ratio is high at 116%
- Maintain **BUY** with revised DCF-based TP of HK\$ 4.55

Parent's sales recovery to fuel VASNPO revenue growth. Sales performance of YXS's parent, Yuexiu Property, in Sep (+178%YoY) and Oct (+9% YoY) has been encouraging. In 10M22, Yuexiu Property's contracted sales rose 11% YoY to RMB 91.1bn while contracted GFA increased 5% YoY to 3.163mn sqm. We attribute the better-than-peer performance to its unique TOD model with projects located in city's prime locations allowing quick access to transportation. While YXS's revenue from VASNPO declined 13% YoY to RMB 171.8mn in 1H22, improving sales of parent will drive up growth for the segment in 2H22 and 2023.

Pent-up demand to be unleashed when COVID resurgence eases in GZ. Confirmed COVID cases in GZ soared to 1,325 as of Nov 5, 2022 as compared to 746 on Nov 4 and 572 on Nov 3. Lockdown measures will affect Yuexiu Property's sales in Nov since Guangzhou contributed ~60% of 1H22 contracted sales. Once restrictive measures are lifted, however, pent-up demand is set to be unleashed. In Shanghai, after the major lockdown in Apr, GFA sold of commodity housing rebounded from -23% YoY in 5M22 to -7% YoY in 9M22.

Cash-to-market cap ratio high at 116%; maintain BUY with revised TP at HK\$ 4.55. We keep our earnings forecast unchanged but slash our DCF-based TP to HK\$ 4.55 (from HK\$ 5.05) as assumptions for WACC rise from 18% to 20% and RMB/HKD exchange rate decline. COVID resurgence in GZ has dragged down share prices of Yuexiu Property and YXS, which fell 28% and 15% over the past month. YXS's cash-to-market cap ratio was high at ~116% as of 4 Nov. We believe the counter is attractively valued given its substantial cash balance and SOE status. Maintain **BUY**.

Risk factors: 1) Unsuccessful contract renewal; 2) Rising labor costs; 3) Substantial related-party transactions; 4) Conservative M&A approach. 5) Slowing revenue growth in VASNPO in 2022-23; 6) Contracting profit margins.

Results and Valuations

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	1,168	1,918	2,588	3,712	5,124
Chg (% YoY)	30.3	64.2	34.9	43.5	38.0
Core profit (RMB mn) ¹	199	395	546	769	1,069
Chg (% YoY)	118.0	98.4	38.1	41.0	38.9
Core EPS (RMB)	0.20	0.30	0.36	0.51	0.70
Chg (% YoY)	118.0	54.5	18.7	41.0	38.9
BVPS (RMB)	0.60	1.93	2.18	2.53	3.02
Chg (% YoY)	137.4	219.2	13.0	16.3	19.4
P/E (x)	12.2	7.9	6.6	4.7	3.4
P/B (x)	3.95	1.24	1.09	0.94	0.79
Core ROE (%)	39.6	19.2	16.9	20.8	24.6
Core ROA (%)	7.6	9.8	10.2	12.6	15.0
DPS (RMB)	-	0.08	0.11	0.15	0.21
Yield (%)	-	3.5	4.5	6.4	8.84
Net cash (RMBmn)	1,008	3,822	4,079	4,414	4,772

Note: RMB to HK\$= 1.07

¹Core profit= Net profit + listing expense and FX losses

Source(s): The Company, ABCI Securities estimates

Company Report Nov 7, 2022

Rating: **BUY**
TP: HK\$ 4.55

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

Share price (HK\$)	2.56
Est. share price return	77.7%
Est. dividend yield	4.5%
Est. total return	82.5%
Previous Rating & TP	BUY; HK\$5.05
Previous Report Date	Aug 12, 2022

Source(s): Bloomberg, ABCI Securities estimates

Key data

52Wk H/L(HK\$)	4.45/2.25
Issued shares (mn)	1,522
Market cap (HK\$ mn)	3,896
3-mth Avg daily turnover (HK\$ mn)	3.06
Major shareholder(s) (%):	
Yuexiu Property	66.92
GZ Metro	5.94

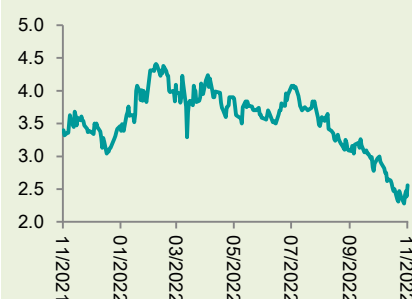
Source(s): Bloomberg, ABCI Securities

Share Performance (%)

	Absolute	Relative*
1-mth	(14.7)	(4.0)
3-mth	(27.5)	(7.6)
6-mth	(29.5)	(10.3)

*Relative to HSI

Share performance (HK\$)



Source(s): Bloomberg, ABCI Securities



Exhibit 1: Changes in TP and profit forecasts

	New	Old	Chg	Reasons
TP (HK\$)	4.55	5.05	-9.9%	Raise our WACC assumption from 18% to 20% ; update exchange rate assumption
Core profit (RMBmn)				
-2022E	638	638	-	-
-2023E	962	962	-	-

Source(s): The Company, ABCI Securities estimates

Financial statements

Consolidated income statement (2020A-2024E)

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Revenue	1,168	1,918	2,588	3,712	5,124
Cost of sales	(765)	(1,248)	(1,744)	(2,539)	(3,521)
Gross Profit	403	671	844	1,173	1,603
Selling and marketing expenses	-	-	-	-	-
Administrative expenses	(144)	(142)	(156)	(180)	(200)
EBIT	259	529	688	993	1,403
Other income	45	14	23	27	33
Share of results of associates	-	0	-	-	-
Finance income	7	24	71	76	83
Finance expenses	(29)	(3)	(7)	(7)	(7)
Net impairment losses on financial assets	(3)	(4)	(5)	(8)	(11)
Listing expenses	-	(20)	-	-	-
Other (losses)/gains-net	0	(16)	-	-	-
Profit before tax	280	524	769	1,083	1,501
Tax	(77)	(155)	(212)	(299)	(414)
Profit after tax	204	370	557	784	1,087
Minority interest	(5)	(10)	(12)	(15)	(18)
Net profit	199	360	546	769	1,069
Core profit*	199	395	546	769	1,069
Per share					
Reported EPS (RMB)	0.20	0.27	0.36	0.51	0.70
Core EPS (RMB)	0.20	0.30	0.36	0.51	0.70
DPS (RMB)	-	0.08	0.11	0.15	0.21
Payout ratio (%)	0%	27%	30%	30%	30%
BVPS (RMB)	0.60	1.93	2.18	2.53	3.02
Growth %					
Revenue	30.3%	64.2%	34.9%	43.5%	38.0%
Gross Profit	65.7%	66.3%	25.8%	39.1%	36.6%
EBIT	104.9%	104.0%	30.0%	44.4%	41.3%
Core profit	118.0%	98.4%	38.1%	41.0%	38.9%
Margin %					
Gross margin	34.5%	35.0%	32.6%	31.6%	31.3%
EBIT margin	22.2%	27.6%	26.6%	26.8%	27.4%
Core net margin	17.0%	20.6%	21.1%	20.7%	20.9%
Revenue breakdown					
Commercial property management and operational services	357	493	690	860	1,043
Non-commercial property mgt and value-added services	811	1,425	1,898	2,852	4,081
Total	1,168	1,918	2,588	3,712	5,124
Key assumptions					
Contracted GFA(mn sqm)	49.9	58.4	84.7	107.1	134.5
- Commercial property management	3.8	5.3	5.7	6.6	7.6
- Non-commercial property management	46.1	53.1	79.0	100.4	126.9
GFA under mgt (mn sqm)	32.6	38.9	58.4	77.9	102.4
- Commercial property management	2.8	3.3	4.5	5.4	6.2
- Non-commercial property management	29.9	35.6	53.9	72.5	96.2

Source(s): The Company, ABCI Securities estimates

* Core net profit= Net profit + Listing expenses and FX losses



Consolidated balance sheet (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Current assets	1,876	4,641	5,111	5,826	6,661
Bank balances and cash	995	3,803	4,060	4,395	4,753
Restricted cash	7	11	11	11	11
Trade and other receivables and prepayments	862	795	1,009	1,389	1,865
Inventories	1	1	1	1	1
Income tax recoverable	11	31	31	31	31
Other current assets	0	0	0	0	0
Non-current assets	535	490	673	866	1,169
Property, plant and equipment	41	39	49	59	69
Financial assets at fair value through other comprehensive income	35	32	32	32	32
Restricted cash	7	8	8	8	8
Other non-current assets	453	411	583	767	1,059
Total Assets	2,411	5,131	5,784	6,693	7,830
Current Liabilities	1,556	1,543	1,802	2,158	2,529
Other payables and accruals	0	0	0	0	0
Contracted liabilities	163	159	159	159	159
Trade payables	1,272	1,302	1,561	1,917	2,288
Borrowings	0	0	0	0	0
Other current liabilities	120	82	82	82	82
Non-current liabilities	94	498	498	498	498
Bank and other borrowings	0	0	0	0	0
Lease liabilities	52	53	53	53	53
Other non-current liabilities	42	445	445	445	445
Total Liabilities	1,650	2,041	2,300	2,656	3,027
Net Assets	761	3,090	3,484	4,037	4,803
Shareholders' Equity	615	2,932	3,314	3,852	4,600
Minority Interest	146	159	170	185	203
Total Equity	761	3,090	3,484	4,037	4,803
Key ratio					
Gross debt (RMB mn)	-	-	-	-	-
Net debt/ (cash) (RMB mn)	(1,008)	(3,822)	(4,079)	(4,414)	(4,772)

Source(s): The Company, ABCI Securities estimates



Consolidated cash flow statement (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Net cash generated from operating activities	450	998	526	677	892
Purchase of PP&E	(14)	(14)	(10)	(10)	(10)
Purchase of intangible assets	-	-	(177)	(190)	(301)
Increase in amounts due from related parties	(26)	-	-	-	-
Decrease in amounts due from related parties 164,907	1,316	165	-	-	-
Others	(250)	(13)	71	76	83
Investing Cash Flow	1,026	138	(116)	(124)	(228)
Debt raised	-	-	-	-	-
Repayments of borrowings	(981)	-	-	-	-
Interest expenses	(28)	(0)	(7)	(7)	(7)
Equity raised	-	2,007	-	-	-
Dividends paid to shareholders	(4)	(90)	(164)	(231)	(321)
Others	(243)	(243)	17	20	22
Financing Cash Flow	(1,256)	1,673	(153)	(218)	(305)
Net cash inflow/ (outflow)	221	2,809	256	336	358
Cash- beginning	774	995	3,803	4,060	4,395
Cash- year-end	995	3,803	4,060	4,395	4,753

Source(s): The Company, ABCI Securities estimates

Disclosures

Analyst Certification

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

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with Onowo, Jinmao China, Jinmao Property Services.

Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate ($\sim 10\%$)
Hold	- Market return (-10%) \leq Stock return $<$ 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 (HSI total return index 2009-21 averaged at 9.2%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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