

KWG Living (3913 HK)

Greater Bay Area player with quality commercial property portfolio

- Expect GFA under management to grow from 37.8mn sqm in 2020E to 109.3mn in 2022E, implying a CAGR of 70%, as M&A activities accelerates
- Driven by rising fee rates from commercial projects, we expect gross margin to improve steadily from 37.6% in 2020E, to 38.7% in 2022E
- On Nov 23-27, the chairman, Mr Kong Jianmin acquired 7.987mn shares at HK\$ 5.66/share for a total consideration of HK\$ 45mn in open market; we interpret it as an act of confidence
- Initiate **BUY** with DCF-based TP of HK\$9.00

A major player in GBA's commercial operational services. KWGL is a comprehensive property management (PM) service provider in China. Among the property management companies (PMCs) with commercial operational services, KWGL was ranked seventh in China and fifth in the Greater Bay Area (GBA) by total GFA under management, according to JLL. As of Apr 30, 2020, KWGL managed 109 residential properties and 30 commercial properties with an aggregate GFA under management of 18.88 mn sqm and 3.3mn sqm. As of Apr 30, 2020, KWGL had been contracted to manage 161 residential properties and 34 commercial properties with a total contracted GFA of 29.7 mn sqm and 4.8mn sqm.

Impressive rise in commercial fee rate. Riding on a growing commercial properties portfolio from KWG Holdings (KWGH) and third parties, revenue from commercial property management and operational services (CPMOS) rose 95% YoY to RMB 231mn in 2018, 58% YoY to RMB 366mn in 2019, and 21%YoY to RMB 135mn in 4M20. The stellar growth was driven by the average management fee of commercial properties that increased 39% YoY to RMB 15.2/sqm/mth in 2018 and 30% YoY to RMB 19.7/sqm/mth in 2019 (4M20: RMB19.7/sqm) due to the inflow of new malls with higher fees. Gross margin for CPMOS segment increased moderately from 42.2% in 2017 to 43.4% in 2019 and 47.2% in 4M20.

KWGH's contracted sales boost residential GFA. Driven by new projects from its sister company, KWGH, the Group's managed GFA under residential property management services (RPMS) rose from 10.9mn sqm in 2017 to 18.3mn sqm in 2019, implying a 30% CAGR during the period. According to KWGH's announcement, contracted GFA rose 24% YoY to 4.92mn sqm in FY19 and 19%YoY to 4.71mn sqm in 10M20. As of June 2020, KWGH had a total landbank of 24.75mn sqm. Fast-growing contracted sales resulted in a substantial undelivered contracted GFA of 10.8mn sqm for RPMS as at Apr 2020, representing 57% of total GFA under management.

Initiate BUY with TP at HK\$9.00. Since a substantial proportion of KWGL's revenue is determined by property management (PM) agreements that generate regular and predictable cash flow, we employ the DCF model in our valuation. Our DCF-based TP of HK\$9.00 translates into 25.0x P/E and 4.4x P/B for 2021E, higher than the mid-cap peer average of 22.1x. We believe KWGL deserves to trade at a premium over its peers based on its better- than-peer net margin and profit growth.

Financial Summary

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	659	1,125	1,869	3,283	4,995
Chg (% YoY)	42.2	70.7	66.2	75.6	52.2
Core net profit* (RMB mn)	80	187	326	616	984
Chg (% YoY)	80.5	135.0	74.3	88.7	59.9
Core EPS (RMB)	0.05	0.11	0.19	0.31	0.49
Chg (% YoY)	80.5	135.0	67.7	58.8	59.9
BVPS (RMB)	0.12	0.24	1.52	1.74	2.08
Chg (% YoY)	66.3	92.5	546.7	14.0	19.7
Core P/E (x)	98.2	41.8	24.9	15.7	9.8
P/B (x)	39.2	20.3	3.1	2.8	2.3
Core ROE (%)	49.8	61.9	17.8	18.7	25.5
Core ROA (%)	6.6	11.6	9.2	12.0	16.5
DPS (RMB)	-	-	0.06	0.09	0.15
Yield (%)	-	-	1.20	1.91	3.06
Net cash (RMB mn)	206	435	2,829	2,426	2,326

* Excluded listing expenses

Source(s): The Company, ABCI Securities estimates

Company Report

Dec 3, 2020

Rating: BUY
TP: HK\$ 9.00

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

Share price (HK\$)	5.65
Est. share price return	59.3%
Est. dividend yield	1.2%
Est. total return	60.5%
Previous Rating & TP	NA
Previous Report Date	NA

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	7.00/5.16
Issued shares (mn)	2,017.8
Market cap (HK\$ mn)	11,865
Avg daily turnover since IPO (HK\$ mn)	61.64

Major shareholder(s) (%):

The Kong's family	52.38%
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Source(s): Bloomberg, ABCI Securities

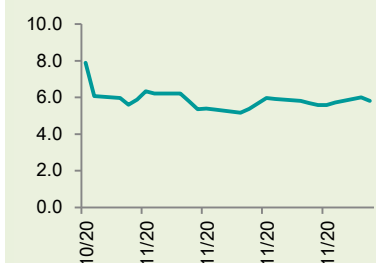
Share Performance (%)

	Absolute	Relative*
1-mth	(3.3)	(11.9)
3-mth	NA	NA
6-mth	NA	NA

*Relative to HSI

Source(s): The Company, ABCI Securities

Share performance (HK\$)



Source(s): Bloomberg, ABCI Securities

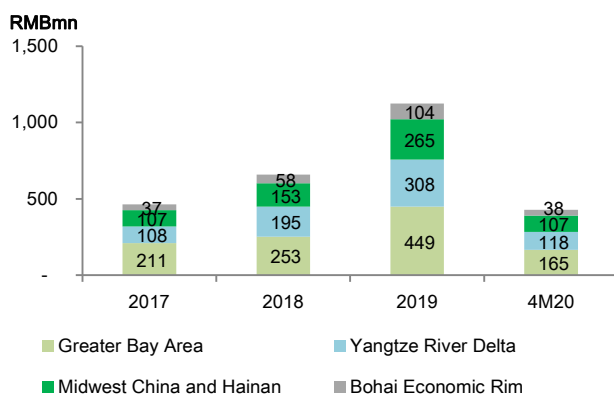
A major player in commercial operational services of GBA & YRD

KWG Living Group Holdings Limited (KWGL) is a comprehensive property management service (PMS) provider in China. Among the property management companies (PMCs) with commercial operational services, KWGL was ranked seventh in China and fifth in the Greater Bay Area (GBA) in terms of total GFA under management, according to JLL. China Index Academy (CIA) ranked KWGL a No. 17 among the 2020 Top 100 Property Management Companies in China (2020中國物業服務百強企業) in terms of the overall strength, based on data in 2019 on key factors such as scale of operations, financial performance, service quality, growth potential, and social responsibility.

KWGL provides comprehensive PMS for both residential and commercial properties. In 2019, the revenue from residential property management service segment (RPMS) and commercial property management and operational service segment (CPMOS) amounted to RMB 759.2 mn (67.5% of total revenue) and RMB365.6mn (32.5% of total revenue). As of Apr 30, 2020, KWGL managed 109 residential properties and 30 commercial properties with an aggregate GFA under management of 18.88mn sqm and 3.3mn sqm. As of the same date, KWGL had been contracted to manage 161 residential properties and 34 commercial properties with an aggregate contracted GFA of 29.7mn sqm and 4.8mn sqm.

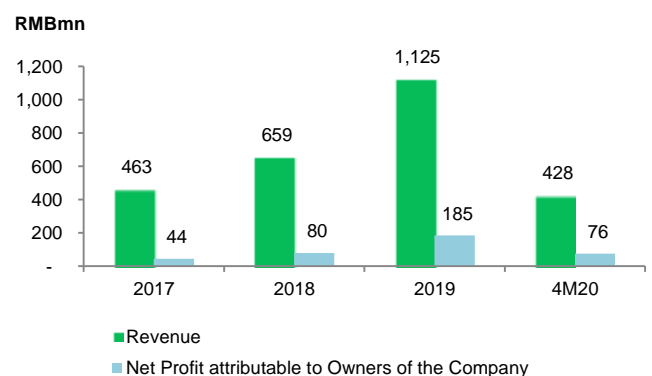
KWGL's history can be traced back to 2004, when the Group commenced to provide residential PMS for properties developed by KWG Holdings (KWGH), a large-scale real estate developer in China who is also KWGL's controlling shareholder before completion of the spin-off (Kong's family is now the common major shareholders after the spin-off). Benefiting from the mutual beneficial and complementary relationship with KWGH, KWGL has become one of the leading PM service providers in China with strong footprint in the Greater Bay Area (GBA) and Yangtze River Delta (YRD), which represents 39.9% and 27.4% of total revenue in 2019. Driven by fast growing GFA under management in GBA, KWGL's revenue soared from RMB 463mn in 2017 to RMB 1,125mn in 2019, implying 56% CAGR during the period, while net profit jumped from RMB 44mn in 2017 to RMB 185mn in 2019, implying 105% CAGR during the period. In 4M20, revenue jumped 40%YoY to RMB 428mn, while net profit attributable to owners of the company soared 97%YoY to RMB 77mn.

Exhibit 1: KWGL's revenue by region



Source(s): The Company, ABCI Securities

Exhibit 2: KWGL's revenue and net profit growth



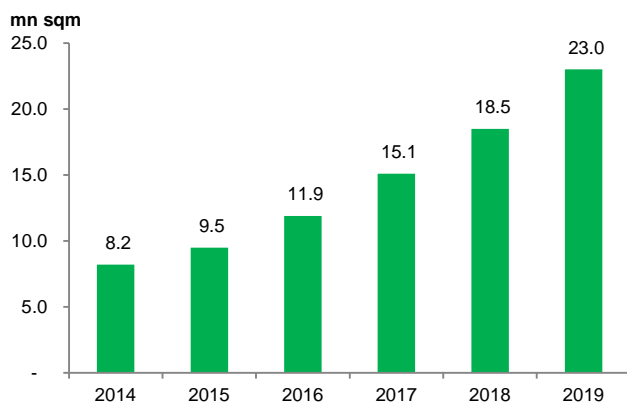
Source(s): The Company, ABCI Securities

Robust demand for residential and commercial PM in GBA

The Guangdong Province has issued an Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (粵港澳大灣區發展規劃綱要). To improve connectivity within the GBA via transport infrastructure development is one of the key themes of the Plan. With such supporting policy, the population inflow to GBA is expected to increase, creating a huge demand on residential properties and related management service. According to JLL, the average GFA of residential properties under management in the GBA of the top 10 PMCs increased at a CAGR of 23.0% during 2014-19.

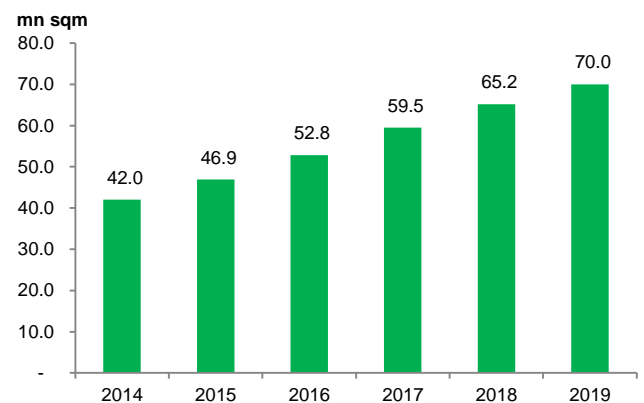
The commercial PM market in the GBA is robust, with the estimated total GFA of commercial property under management reaching 300.7 mn sqm in 2019, according to JLL. Meanwhile, the market of the commercial operational service in the GBA has also experienced a rapid and substantial development. The market size of the commercial operational service grew from ~42.0mn sqm in 2014 to ~70.0mn sqm in 2019, representing a CAGR of 10.8%. In particular, overall supply of office buildings is expected to increase in GBA. According to JLL, new supply of Grade-A office properties in Shenzhen in the next five years will amount to ~7.6mn sqm, which is about the same size of the existing stock.

Exhibit 3: Average GFA of residential properties under management in GBA of the top 10 PMCs



Source(s): JLL, ABCI Securities

Exhibit 4: Total GFA in GBA managed by the commercial operational companies



Source(s): JLL, ABCI Securities

Diversified revenue mix

KWGL has two principal business lines:

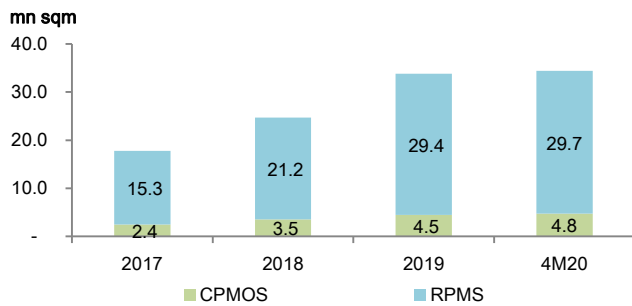
1) **Residential property management services (RPMS) : 67.5% of 2019 revenue; 48.3% revenue CAGR in 2017-19**

- (i) **Presale management services** such as cleaning, security and maintenance services for presale display units and sales offices to property developers during their presale activities.
- (ii) **Property management services (PMS)** such as cleaning, security, gardening and repair and maintenance services to (i) property developers for undelivered portion of the properties; (ii) property owners, property owners' associations or residents for properties sold and delivered.
- (iii) **Community value-added services (CVAS)** such as (i) property agency services to property developers and property owners; (ii) home-living services to property owners and residents; and (iii) common area value-added services (VAS).

2) Commercial property management and operational Services (CPMOS): 32.5% of 2019 revenue; 75.9% revenue CAGR in 2017-19

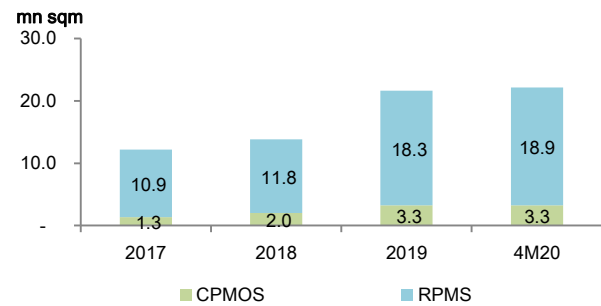
- (i) **Presale management services** such as cleaning, security and maintenance services for presale display units and sales offices to property developers during their presale activities.
- (ii) **Commercial PM services** such as file management, cleaning, security, gardening and repair and maintenance services to property owners or tenants.
- (iii) **Commercial operational services** such as preliminary planning and consultancy services, tenant sourcing services, tenant management services and marketing and promotion services to property owners and property developers. KWGL typically charges (i) a commission-based fee with respect to operation of shopping malls; (ii) a profit mark-up on top of the costs with respect to operation of office buildings; and (iii) a fixed service fee on a per sqm basis for preliminary planning and consultancy services and tenant sourcing services;
- (iv) **Other VAS**, primarily including common area VAS.

Exhibit 5: KWGL's contracted GFA



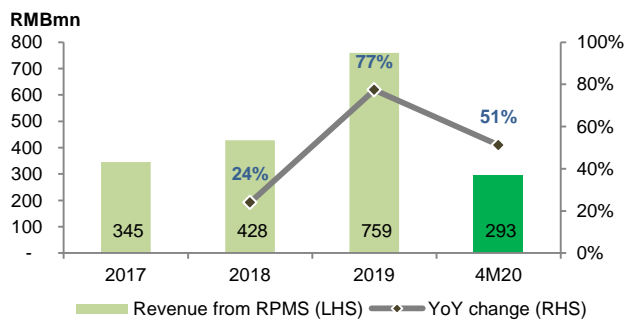
Source(s): The Company, ABCI Securities

Exhibit 6: KWGL's GFA under management



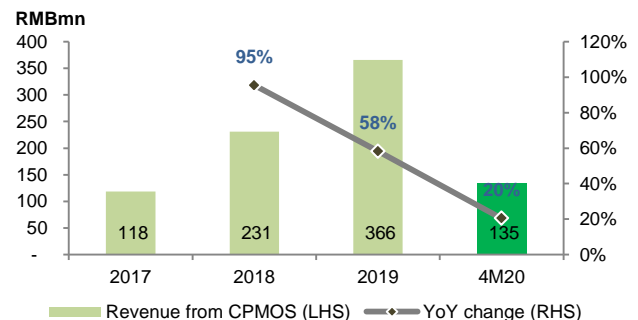
Source(s): The Company, ABCI Securities

Exhibit 7: KWGL's revenue from RPMS



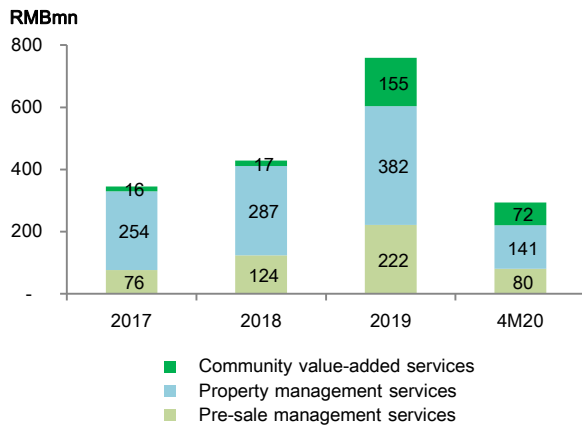
Source(s): The Company, ABCI Securities

Exhibit 8: KWGL's revenue from CPMOS



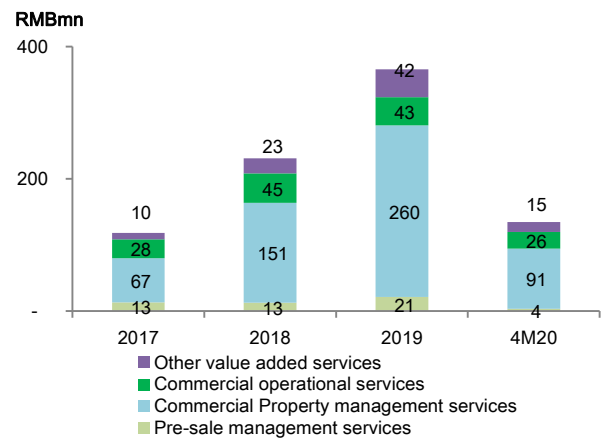
Source(s): The Company, ABCI Securities

Exhibit 9: RPMS revenue by type of services



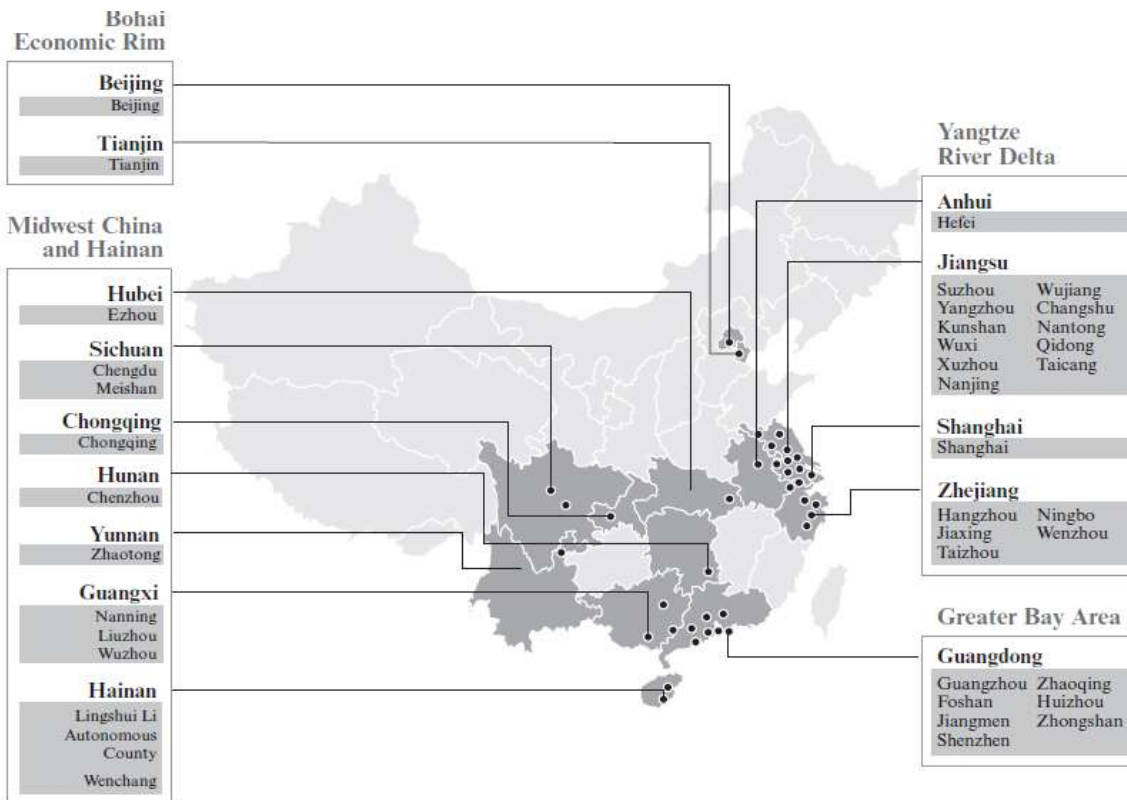
Source(s): The Company, ABCI Securities

Exhibit 10: CPMOS revenue by type of services



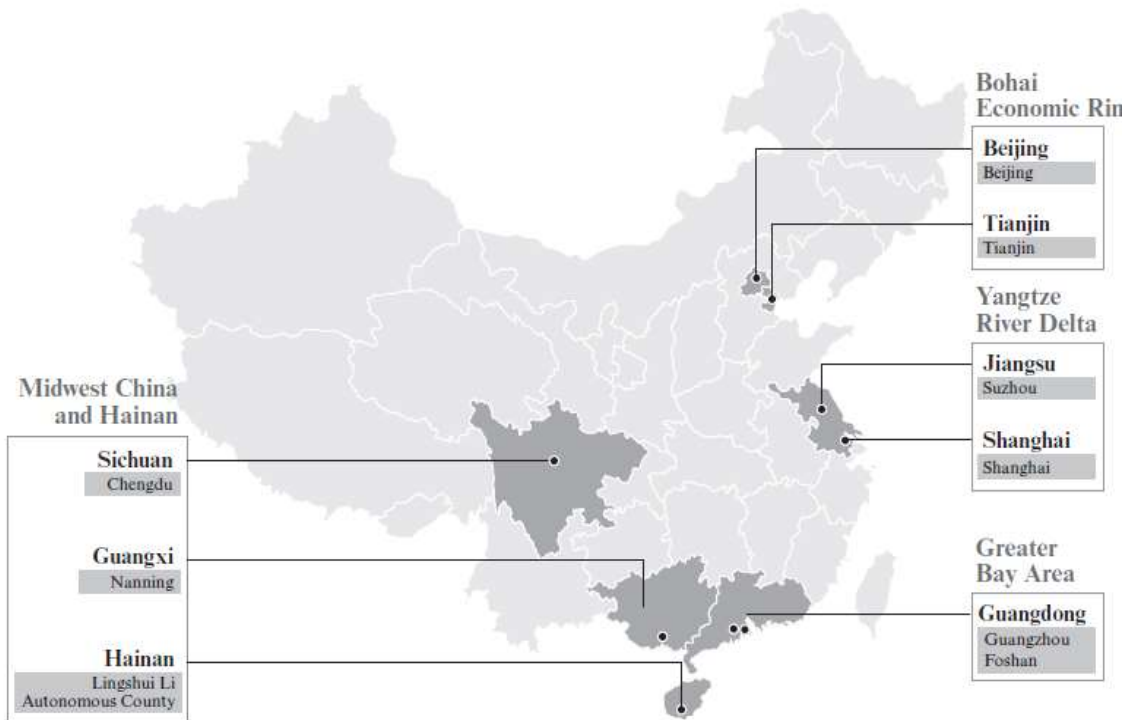
Source(s): The Company, ABCI Securities

Exhibit 11: Location of residential properties under management (as of Apr 2020)



Source(s): The Company, ABCI Securities

Exhibit 12: Location of commercial properties under management (as of Apr 2020)

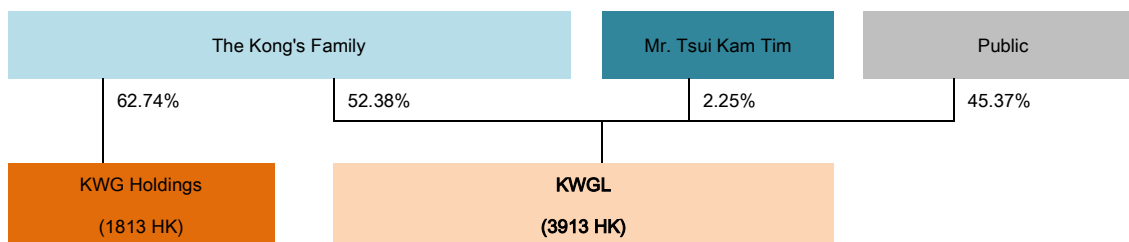


Source(s): The Company, ABCI Securities

Shareholding structure

KWGL is currently 52.38%-owned by the Kong's family, which is also the largest shareholder of KWG Holdings (KWGH, 1813 HK), a HK-listed China property developer. During 23-27 Nov, the chairman, Mr Kong Jianmin acquired 7.987mn shares at HK\$5.66/share for a total consideration of HK\$45mn in open market. About 2.25% stake is owned by Mr. Tsui Kam Tim, the general manager of the investment department and senior consultant of the Group.

Exhibit 13: Shareholder structure as after spin-off and IPO



Source(s): The Company, ABCI Securities

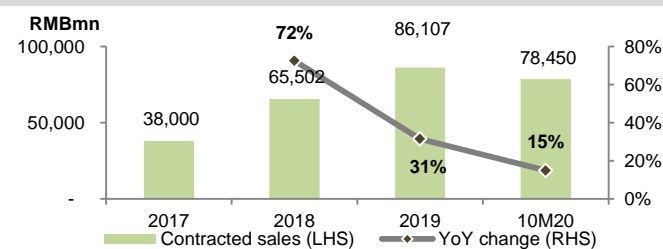
Residential Property management services (RPMS): KWGH's contracted sales drive GFA growth

PMS: KWGH's contracted sales continue to accelerate

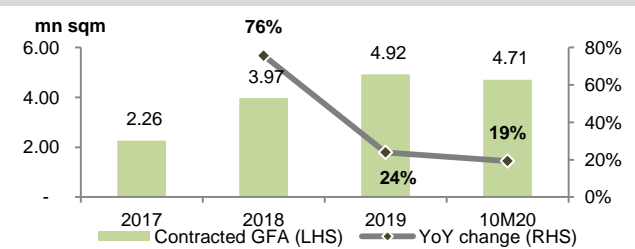
Driven by new projects inflow from KWGH, KWGL's managed GFA under RPMS rose from 10.9mn sqm in 2017, to 18.3mn sqm in 2019, implying a 30% CAGR during the period. In fact, KWGH's fast growing contracted sales provide an expanding pipeline for KWGL. According to KWGH's annual report, contracted sales increased 31% YoY to RMB 86.107bn while contracted GFA rose 24% YoY to 4.92mn sqm in FY19. Due to the COVID-19 pandemic, growth rate of KWGH's contracted sales and contracted GFA slowed to 15% YoY and 19% YoY in 10M20. As of June 2020, KWGH had a total landbank of 24.75mn sqm. Fast-growing contracted sales resulted in undelivered contracted GFA of 10.8mn sqm for RPMS as at Apr 2020, representing 57% of total GFA under management for RPMS (Apr 2020: 18.88mn sqm). During 2017-19, all of the residential properties solely developed by KWGH were under KWGL's management. KWGL's bid rate for properties developed by KWGH was 100%.

As of Jun 2020, KWGH has 32 urban redevelopment projects in progress (~18mn sqm in GFA) in Guangzhou, Foshan and Shenzhen, three projects in Guangzhou have commenced the demolition and relocation since the beginning of 2020, and another project has been successfully recognized. We believe these urban redevelopment pipelines will likely be included in the landbank and can potentially add to KWGL's GFA under management in the future.

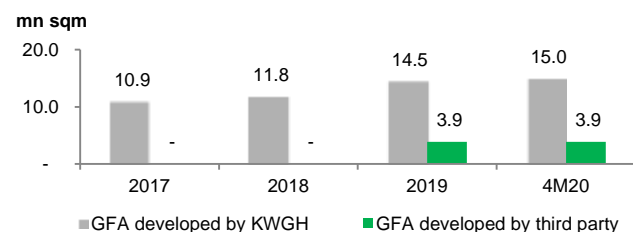
In addition, KWGL has started to manage residential properties developed by third-party property developers since 2019. Managed GFA under RPMS increased to 3.9mn sqm in 2019, representing 21% of total residential properties under management. Increase in third-party projects in 2019 was mainly due to the acquisition of the full stake in Gangyu Enterprise at RMB 197.466mn in Jan 31, 2019, which boosted residential and commercial GFA by 4.1mn sqm and 0.715mn sqm for the year. Gangyu Enterprise contributed RMB 10.7mn in net profit during 2019. KWGL's bid rate for properties developed by third-party developers was 75% in 2019.

Exhibit 14: KWGH's contracted sales


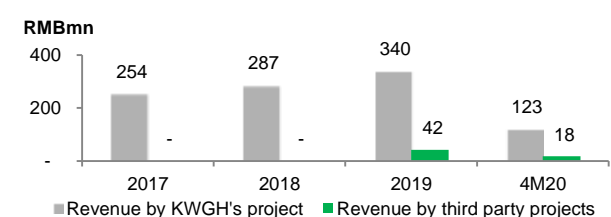
Source(s): KWGH, ABCI Securities

Exhibit 15: KWGH's contracted GFA


Source(s): KWGH, ABCI Securities

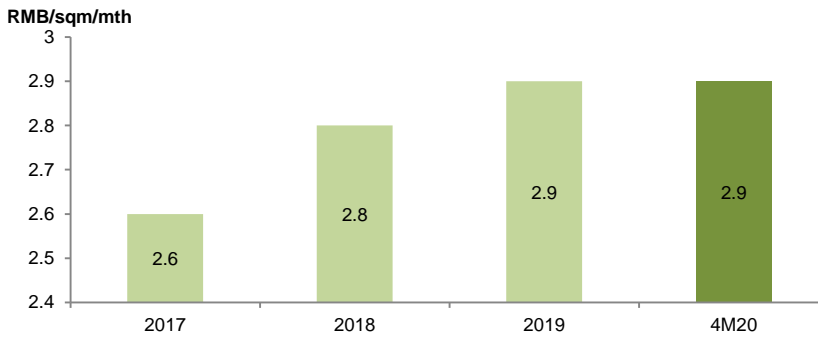
Exhibit 16: Total GFA under management from residential projects developed by KWGH and third-party developers


Source(s): The Company, ABCI Securities

Exhibit 17: PM revenue from residential projects developed by KWGH and third-party developers


Source(s): The Company, ABCI Securities

Exhibit 18: KWGL's average management fee rate of residential properties

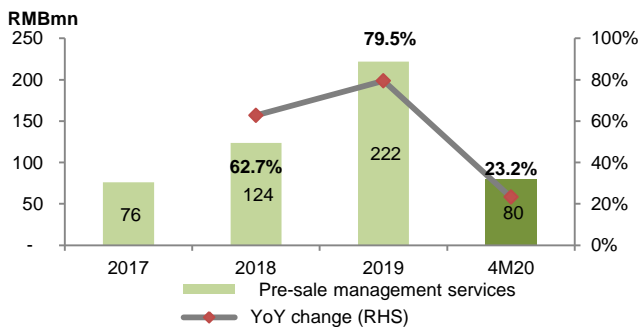


Source(s): The Company, ABCI Securities

Presale management services: Riding on increasing presales activities of KWGH

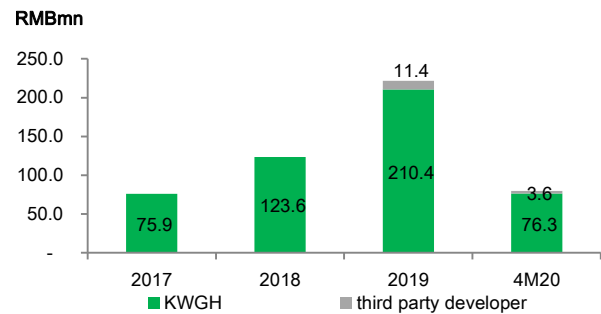
Driven by growing presales activities of KWGH, revenue from presales management with respect to residential properties increased from RMB 76mn in 2017, to RMB 222mn in 2019, implying a CAGR of 71% in 2017-19. In 4M20, revenue from presales management with respect to residential properties increased 23%YoY to RMB 80mn. Leveraging its expertise in PM and reputable brand, KWGL has gradually expanded its customer base for presales management services to third-party property developers since 2019. In 2019 and 4M20, residential presales management services to third-party developers accounted for 5.1% and 4.5% of the revenue generated from this business line. We believe providing such services to the third-party property developers would help KWGL cultivate relationship at the early stage of property development and facilitate subsequent PM engagement. Regarding credit terms, KWGL typically charges the presale management service fees with property developers on a quarterly basis by the services completed.

Exhibit 19: Revenue from residential presales management



Source(s): The Company, ABCI Securities

Exhibit 20: Revenue from residential presales management by customer



Source(s): The Company, ABCI Securities

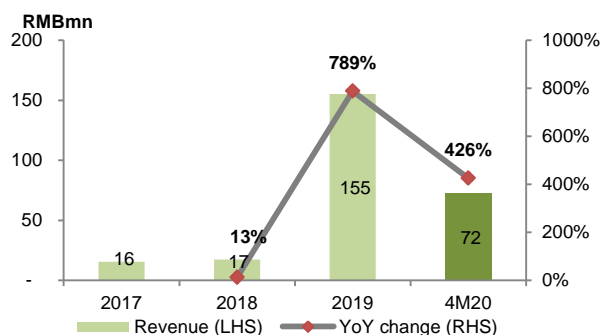
Community value-added services (CVAS): Property agency drives growth and margin

Targeting to enhance the level of convenience and meeting the needs of property developers, property owners, and residents of the Group's managed properties, KWGL provides CVAS through daily contact and interactions with customers during the process of providing RPMS. KWGL's CVAS mainly include (i) property agency services; (ii) home-living services; and (iii) common area value-added services (VAS).

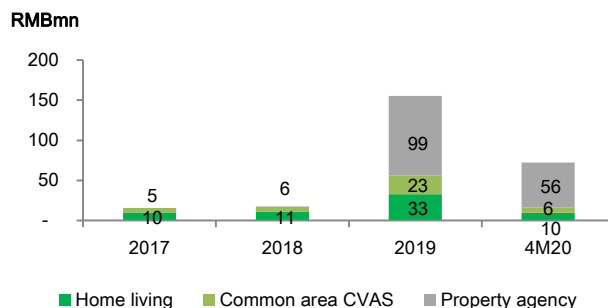
- **Property Agency Services:** KWGL commenced property agency services with respect to (i) second-hand residential properties owned by property owners in 2017; (ii) residential properties newly developed by property developers in 2019. Leveraging its close relationships with the residents through PM operations, KWGL has access to potential residential property buyers with proven purchasing power. Upon the consummation of a property sale transaction, KWGL charges sellers a commission calculated at a fixed percentage of the contracted purchase price which typically ranges from 0.8% to 1.0%. Moreover, KWGL offers brokerage services for property leasing transactions, which primarily include property listing as well as assistance in the negotiation and documentation of leases. Upon the closing of a successful property leasing transaction, KWGL typically charges the landlord a certain percentage of the first-year average monthly rent as commission.
- **Home-living Services:**
 - **Butler services:** Butlers maintain frequent communications with property owners and residents to listen to and understand their problems and needs so as to better anticipate and timely respond to their requests from time to time and to build trusting and cordial customer relationships. The property owners and residents seek assistance from KWGL's butlers whenever needed and almost all of the home-living services in its managed residential communities are reported to the butlers, who would in turn assess the situation and allocate and coordinate appropriate on-site resources to respond to customer requests and address such issues.
 - **Decoration, turnkey and move-in furnishing services:** KWGL offers design and purchasing services with turnkey furnishing packages to create a move-in ready residence. Leveraging KWGL's integrated supplier resources, the Group assists the owners and residents in decorating and furnishing the units and purchasing furniture, home appliances and accessories, saving them time and effort.
 - **Group purchase services:** KWGL coordinates group purchases of products, such as groceries and tour packages, in accordance with the requirements of property owners or residents. By organizing group purchases, KWGL is taking initiative in maximizing the benefits of living in a residential community, as it is generally possible to secure better discounts when negotiating and purchasing as part of a group. KWGL also organizes group purchases of tour packages.
 - **Home maintenance and improvement services:** KWGL provides home maintenance cleaning, improvement, renovation and remodeling services through sub-contractors or subsidiaries.
 - **Event organization services:** KWGL organized various community events such as "Harmony Cultural Festival" (合睦文化節), "Let's Running For Fun" (社區樂跑賽), "Luminal Art Festival" (燈光藝術節) and various community outing events. KWGL also plans to organize weekend outings for residents and invite financial institutions to offer wealth management lectures and seminars to residents.

- **Common Area VAS:** KWGL assists property owners or property developers in leasing common spaces, such as unsold parking spaces, lift advertising spaces, basements and outer wall advertising spaces. KWGL may also rent out empty floor space for small businesses to use as temporary shops.

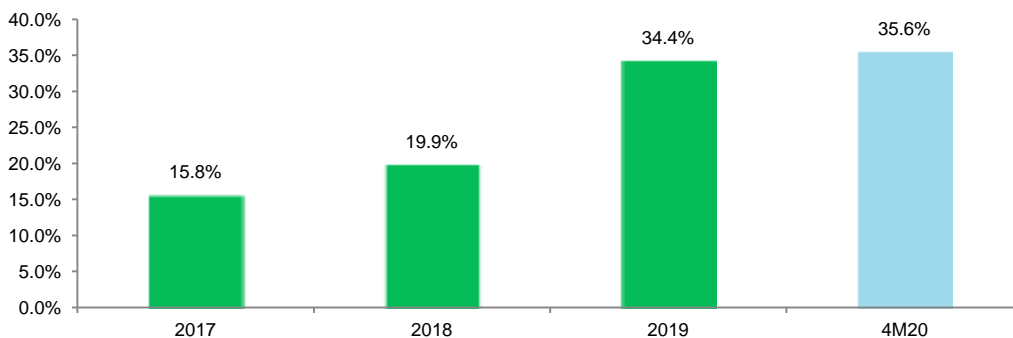
Revenue generated from CVAS increased by 788% YoY to RMB 155.4mn in 2019 primarily as KWGL (i) introduced property agency services to newly-developed residential projects in 2019; (ii) provided more home-living and common area value-added services, driven by the increase in GFA under management and types of CVAS. In 4M20, CVAS revenue increased by 426%YoY to RMB 72mn. Driven by significant jump in CVAS revenue, gross margin of RPMS increased from 19.9% in 2018, to 34.4% in 2019 and 35.6% in 4M20.

Exhibit 21: Revenue from CVAS


Source(s): The Company, ABCI Securities

Exhibit 22: Revenue from CVAS by type of services


Source(s): The Company, ABCI Securities

Exhibit 23: Gross margin of RPMS


Source(s): The Company, ABCI Securities

CPMOS: Inflow of malls and offices properties from KWGH

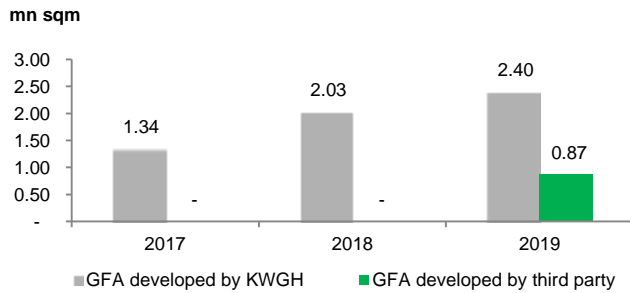
Commercial property management (CPM): Impressive management fee rate improvement on quality mall portfolio

KWGL provides CPM services to property owners or tenants of the commercial properties, including:

- **File management** — KWGL provides file management services to property developers to ensure the records and files of the properties under management are safe and in good order.
- **Cleaning** — KWGL provides general cleaning and hygiene maintenance services to the communal areas of commercial properties primarily through sub-contractors. Such communal areas include, among others, staircases, lobbies, rooftops, railings, hallways, and basements.
- **Security** — KWGL seeks to ensure that the commercial properties under management are safe and in good order. The security services provided include, among others, traffic management, parking management, patrolling, video surveillance, car park security, emergency response, entry control and fire safety. KWGL provides security services primarily through its own staff or sub-contractors and technological solutions, such as surveillance cameras.
- **Gardening** — gardening services include pruning, fertilizing and pest control and are provided primarily through sub-contractors. KWGL seeks to maintain the growth and beauty of greenery throughout its managed properties.
- **Repair and maintenance** — KWGL is generally responsible for ensuring that elevator systems, power supply and distribution systems, water supply and drainage systems, fire extinguishing systems and other facilities and equipment located in communal areas are in good working order.

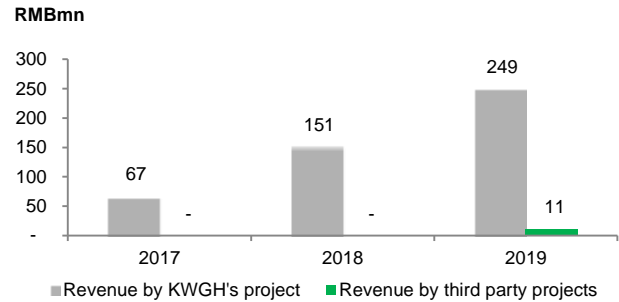
The growth of GFA under management for KWGL's commercial properties has been supported by its KWGH's expanding shopping mall and office portfolio. According to KWGH's annual report, its rental income from commercial properties grew 64% YoY to RMB 379mn in 2018 and 65% YoY to RMB 627mn in 2019. Based on KWGH's 1H20 interim presentation, KWGH plans to open another 16 new malls with 1.1mn sqm, 6 office properties and additional leasable GFA of 2.6mn sqm from urban redevelopment in coming years. Riding on growing commercial properties portfolio from its KWG Holdings (KWGH) and third parties, revenue from commercial property management and operational services (CPMOS) rose 95% YoY to RMB 231mn in 2018, 58% YoY to RMB 366mn in 2019 and 21%YoY to RMB 135mn in 4M20. In particular, the stellar growth rate is driven by the average management fee of commercial properties, which increased 39%YoY to RMB 15.2/sqm/mth in 2018 and 30% YoY to RMB 19.7/sqm/mth in 2019 and 4M20, due to inflow of new malls with higher fee rates. As robust management fee rate growth was offset by higher GFA from the lump-sum contracts, which increased from 65.7% of total commercial GFA under management in 2017 to 72.1% in 2019 and 4M20, gross margin of the segment only edged up from 42.2% in 2017 to 42.3% in 2018, 43.4% in 2019, and 47.2% in 4M20.

Exhibit 24: Total GFA under management from commercial projects developed by KWGH and third-party developers



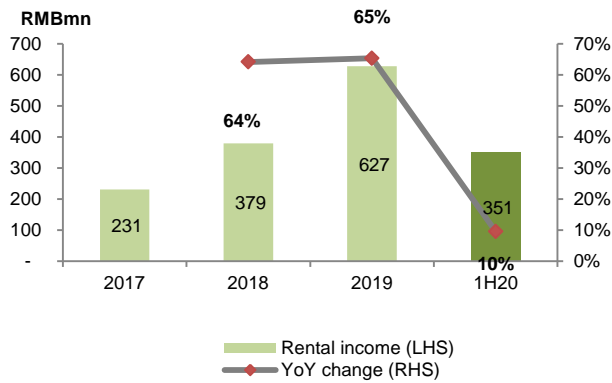
Source(s): The Company, ABCI Securities

Exhibit 25: PM revenue from commercial projects developed by KWGH and third-party developers



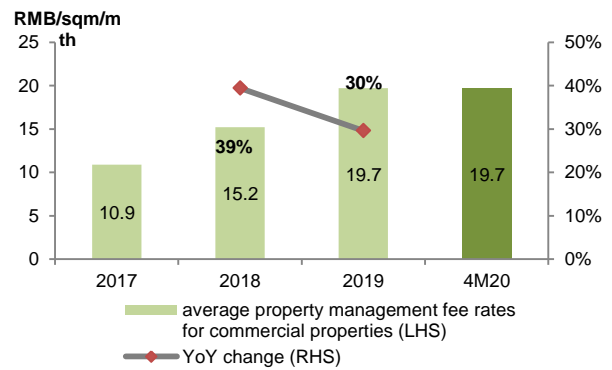
Source(s): The Company, ABCI Securities

Exhibit 26: KWGH's revenue from investment properties



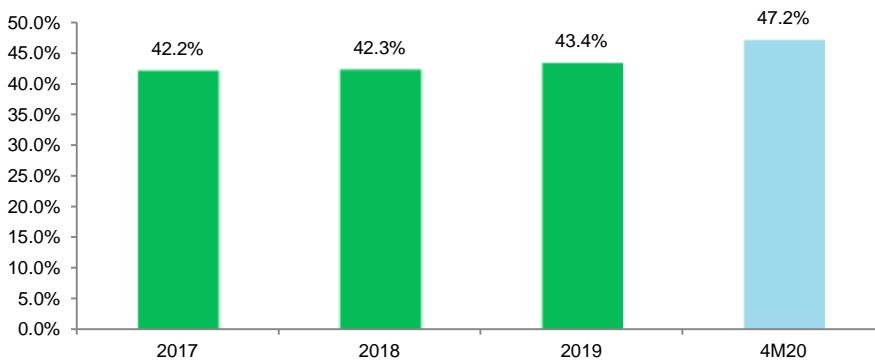
Source(s): KWGH, ABCI Securities

Exhibit 27: KWGL's average management fee rate of commercial properties



Source(s): KWGL, ABCI Securities

Exhibit 28: Gross margin of CPMOS segment



Source(s): The Company, ABCI Securities

Commercial operational services (COS): multiple revenue streams

KWGL provides commercial operational services to property owners and property developers of certain commercial properties under management.

Preparation Stage

- **Preliminary planning and consultancy services** — preliminary planning and consultancy services include market research and analysis, feasibility studies, financial projection and marketing and positioning strategy formulation for the commercial properties.
- **Tenant sourcing services** — KWGL helps property developers and property owners identify and solicit target tenants and arrange the signing of tenancy agreements. With respect to the shopping malls, KWGL helps select suitable tenants with an aim to optimize brand mix.

Operation Stage

- **Tenant management services** — KWGL provides tenant management and rent collection services to property owners and property developers, including, among others, handling tenant enquiries and complaints, processing rent payments, ensuring timely payment of rents by tenants, and assisting the property owners and property developers in adjusting and optimizing tenant mix.
- **Marketing and promotion services** — KWGL hold various promotional activities including holiday sales, public relation and promotion events, aiming to attract traffic to the commercial properties under management and increase tenants' sales.

KWGL typically charges (i) a commission-based service fee which was calculated as a certain percentage of the rent collected by the property owners or property developers with respect to operation of shopping malls; (ii) a profit mark-up on top of cost with respect to operation of office building; and (iii) a fixed service fee on per sqm basis for preliminary planning and consultancy services and tenant sourcing services.

We believe the revenue from COS is highly correlated to the scale of new malls commencing operation during the year, given tenant sourcing at the preliminary stage is one of the major business lines. Revenue from COS increased 57%YoY to RMB 45mn in 2018 but dropped 5%YoY to RMB 43mn in 2019 due to new shopping mall openings fell from 4 in 2018 to 1 in 2019. In 4M20, COS revenue increased 83%YoY to RMB26mn because more tenant sourcing services were provided to shopping malls to be opened in late 2020 and 2021. Aside from shopping malls with a GFA of 488k sqm in operation and 67k sqm to be opened in Oct 2020, the Group also provided commercial operational services to seven office buildings with a total GFA of 867k sqm.

Exhibit 29: List of KWGL's shopping mall under management (Apr 2020)

Projects	Opening date	Location	Occupancy rate		GFA (sqm)
			(Dec 2019)	(Apr 2020)	
<i>In operation:</i>					
<u>U-fun (悠方)</u>					
Yushan (譽山)	October 2018	Guangzhou	81%	66%	20,358
Longjing (瀧景)	December 2019	Foshan	75%	83%	13,545
Suzhou (蘇州)	April 2018	Suzhou	89%	84%	179,930
Chengdu (成都)	May 2018	Chengdu	96%	94%	229,531
<u>M · CUBE (摩方)</u>					
Beijing (北京)	October 2018	Beijing	86%	78%	44,195
Total					487,559
<i>Not yet in operation:</i>					
Chengdu M · CUBE (成都摩方)	October 2020	Chengdu			67,291

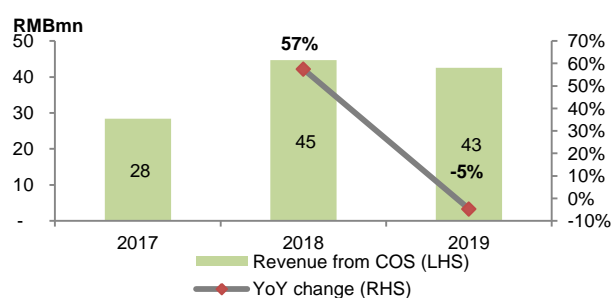
Source(s): The Company, ABCI Securities

Exhibit 30: List of KWGL's office under management (Apr 2020)

Projects	Opening date	Location	GFA (sqm)
1 Guangzhou Hejing International Finance Place (廣州合景國際金融廣場)	Oct-07	Guangzhou	102,400
2 Guangzhou International Metropolitan Plaza (廣州環球都會廣場)	May-16	Guangzhou	33,333
3 International Commerce Place (環匯商業廣場)	Oct-16	Guangzhou	73,697
4 Shanghia International Metropolitan Plaza (上海環球都會廣場)	Jun-18	Shanghai	149,292
5 Chengdu International Commerce Place (成都環匯商業廣場)	Aug-16	Chengdu	270,000
6 Suzhou Leader Plaza (蘇州領匯廣場)	Dec-15	Suzhou	104,913
7 Guangxi Hejing International Finance Place (廣西合景國際金融廣場)	Dec-18	Nanning	134,000
Total			867,635

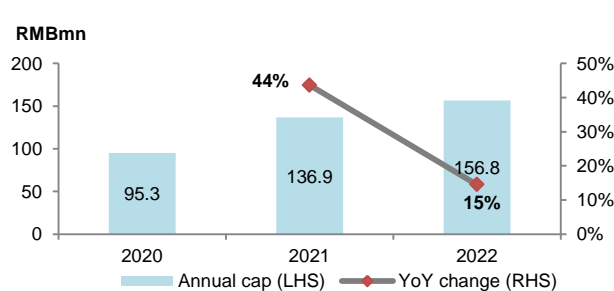
Source(s): The Company, ABCI Securities

Exhibit 31: Revenue from COS



Source(s): The Company, ABCI Securities

Exhibit 32: Annual cap for COS provided to KWGH



Source(s): The Company, ABCI Securities

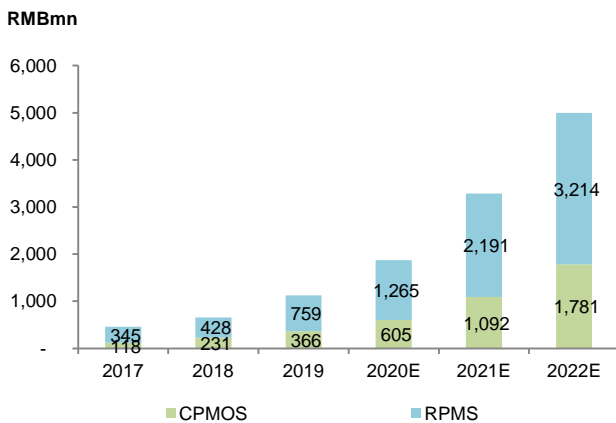
Earnings forecasts

Expect net profit to expand at 74% CAGR over 2020E-22E based on growing GFA under management

We expect revenue to grow at 63% CAGR in 2020E-22E on expanding GFA under management and higher fee rate from commercial properties. We estimate the Group to acquire 5mn sqm/20mn sqm/ 20mn sqm of residential GFA, and 1mn sqm/3mn sqm/ 3mn sqm of commercial GFA in 2020E-22E. GFA under management would grow at 72%/57% CAGRs for RPMS/CPMOS during 2020E-22E, organically or through acquisition. We believe management fee rate for residential projects would stay similar since gains from higher fee rate from KWGH-developed projects would be offset by acquired projects with lower fee rates. Average fee rate for CPMOS would rise at 2% CAGR during 2020E-22E on improving occupancy and tenants' revenue in the new malls.

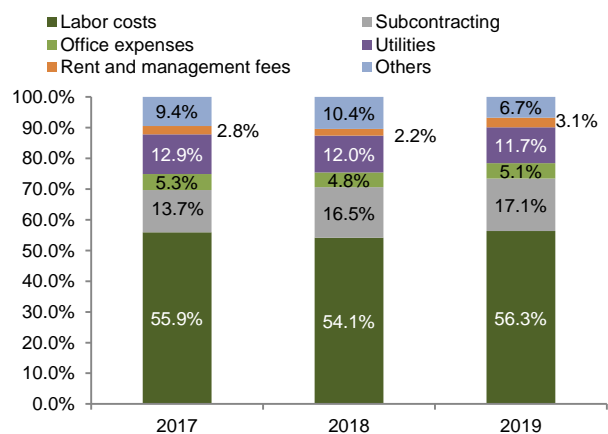
We expect gross margin to increase steadily from 37.6% in 2020E to 38.7% in 2022E due to 1) higher fee rate of CPMOS business; 2) improving margin from RPMS business due to increasing contribution from CVAS revenue. Net margin would increase from 17.6% in 2020E to 19.8% in 2022E. Based on the growing revenue and improving gross margin, we forecast net profit to increase from RMB 329mn in 2020E to RMB 989mn in 2022E, representing a 74% CAGR in 2020E-22E.

Exhibit 33: KWGL's revenue breakdown



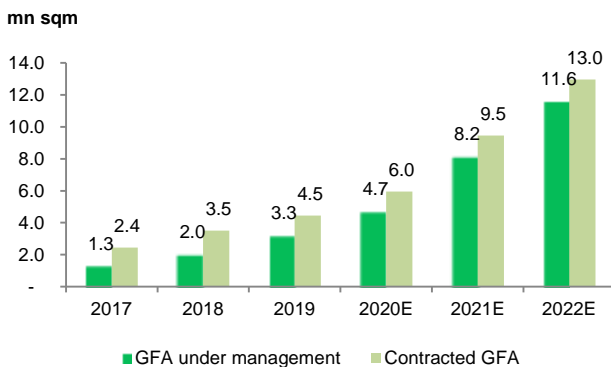
Source(s): The Company, ABCI Securities estimates

Exhibit 34: KWGL's cost of sales breakdown



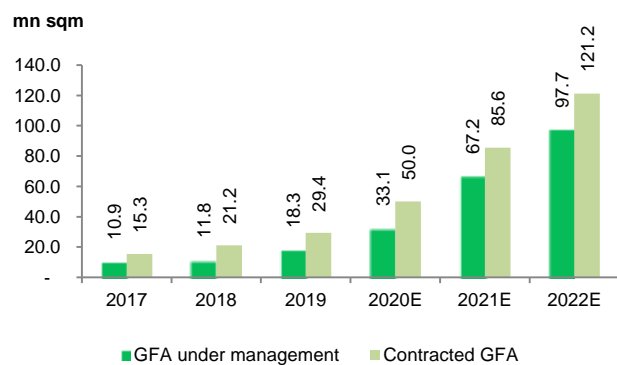
Source(s): The Company, ABCI Securities

Exhibit 35: KWGL's contracted GFA and GFA under management for CPMOS



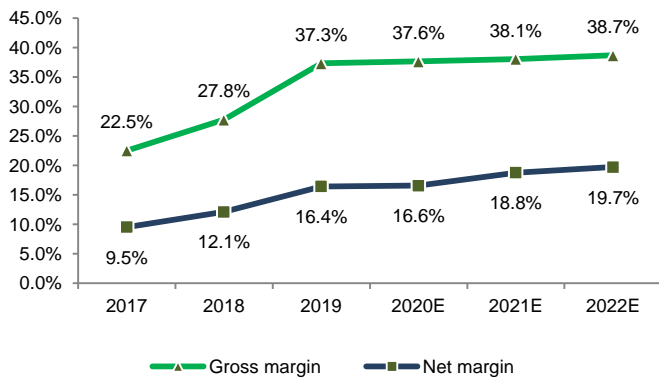
Source(s): The Company, ABCI Securities estimates

Exhibit 36: KWGL's contracted GFA and GFA under management for RPMS



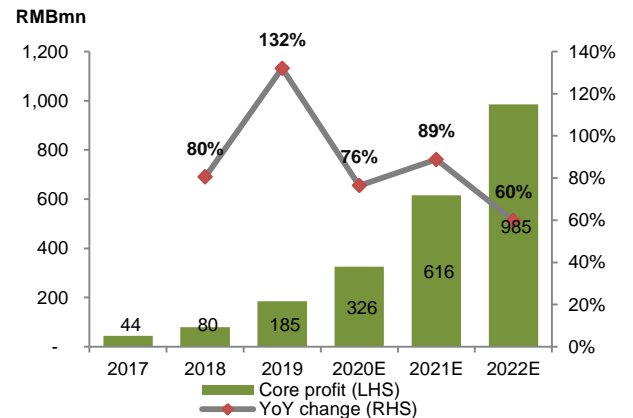
Source(s): The Company, ABCI Securities estimates

Exhibit 37: Gross and net margins



Source(s): The Company, ABCI Securities estimates

Exhibit 38: KWGL's net profit

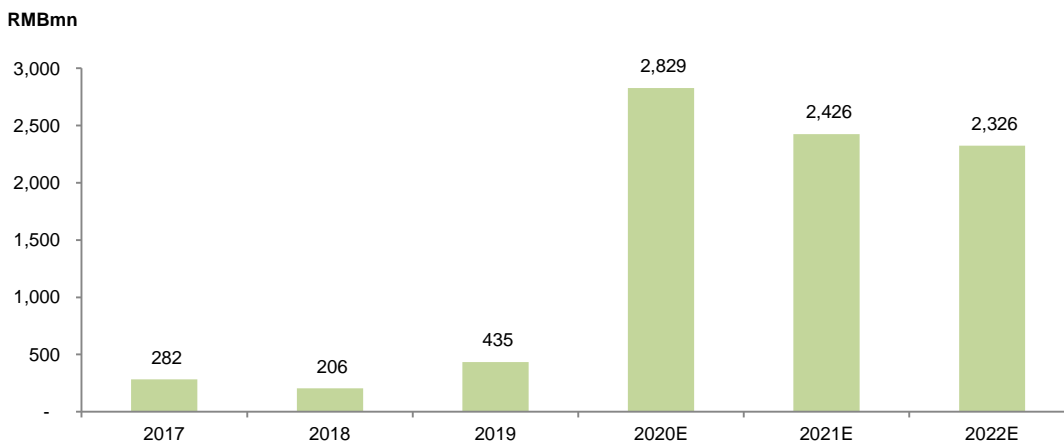


Source(s): The Company, ABCI Securities estimates

A net cash company

KWGL has been in a net cash position since 2016. Driven by its healthy level of free cash flow from its operation, we expect net cash balance to grow to RMB 2,829mn by 2020E. Accelerated M&A activities, which we expect to spend ~RMB700mn in 2021E/22E, would reduce cash balance in 2021E-22E.

Exhibit 39: Net cash balance (end of period)



Source(s): The Company, ABCI Securities estimates

* Net cash= total cash- gross debt

Initiate BUY with TP HK\$9.00 based on DCF

DCF valuation based on an 11% WACC

In our view, a substantial proportion of KWGL's revenue is determined by PM agreement that generates recurrent income regularly. The high cash flow visibility prompts us to adopt the DCF method for valuation since it would be able to take consideration of the long-term value.

The DCF-derived model TP for KWGL (with a WACC of 11% and 1% terminal growth) is HK\$ 9.00, which translates into 25.0x P/E and 4.4x P/B for 2021E.

Exhibit 40: Sensitivity of KWGL's DCF based TP to changes in WACC and terminal growth

Terminal growth	TP (HK\$)	WACC				
		9.0%	10.0%	11.0%	12.0%	13.0%
0%	9.90	9.00	8.20	7.60	7.10	
1%	10.40	9.30	8.50	7.80	7.20	
2%	11.00	9.80	8.80	8.00	7.40	

<u>Variance from the base case</u>		WACC				
Terminal growth	change(%)	9.0%	10.0%	11.0%	12.0%	13.0%
0%	16%	6%	-4%	-11%	-16%	
1%	22%	9%	0%	-8%	-15%	
2%	29%	15%	4%	-6%	-13%	

Source(s): ABCI Securities estimates

Comparative approach

Given relatively short listing history of the PM sector, some investors may still rely heavily on comparative approach in determining a fair valuation. Also we expect stocks with higher market cap would normally trade at higher valuation multiple due to better trading turnovers. Our TP implies 2021E P/E of 25.0x. KWGL's mid-cap peers (mkt cap of HK10-30bn) are now trading average at 22.1x 2021E P/E, based on Bloomberg's consensus forecast. In our view, KWGL's premium can be justified by: **1) Faster net profit growth-** KWGL's net profit growth of 74%/89% YoY in 2020/2021E is much higher than the 54%/46%YoY in 2020/2021E for its mid-cap peer group based on Bloomberg consensus; **2) higher net margins-** KWGL's net margin of 17.5%/18.8% in 2020/2021 is much higher than the 12.8%/13.3% in 2020/2021E for its mid-cap peer group based on Bloomberg consensus.

Exhibit 41: Net profit growth and net margin forecast in 2020-21E- KWGL vs mid-cap peers

<u>Net profit growth</u>	2020E	2021E
KWGL*	74%	89%
Mid-cap peers average #	54%	46%

<u>Net margin</u>	2020E	2021E
KWGL*	17.5%	18.8%
Mid-cap peers average #	12.8%	13.3%

*ABCI Securities estimates; # Bloomberg consensus forecast for Ever Sunshine, China Overseas Property, S-Enjoy and Powerlong CM
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 42: Valuation of HK-listed PMCs

	Ticker	Mkt Cap	Share Price	Performance			Valuation									
				3M	YTD	2019	P/E			Yield (%)			P/B			
				% Chg	% Chg	% Chg	2019A	2020E*	2021E*	2019A	2020E*	2021E*	2019A	2020E*	2021E*	
		HK\$ bn	(HK\$)													
Large cap PMC (Mkt cap > HK\$30bn)																
1	Country Garden Services	6098 HK	127.5	46.20	(15)	76	111	48.8	42.9	30.2	0.2	0.6	0.8	16.5	14.3	10.4
2	A-Living	3319 HK	42.7	32.05	(17)	20	158	25.0	20.9	15.8	1.1	1.9	2.5	5.7	4.8	4.0
3	Poly Property Development	6049 HK	30.2	54.60	(20)	17	33	38.2	36.4	27.0	0.6	0.8	1.1	4.9	4.4	3.9
4	Greentown Services	2869 HK	30.2	9.40	(7)	10	43	36.6	36.2	27.9	0.9	1.1	1.4	3.9	4.3	3.9
Mid cap PMCs (Mkt cap in between HK\$10-30bn)																
1	Ever Sunshine	1995 HK	22.9	13.70	(17)	159	198	59.0	48.8	31.4	0.4	0.7	1.2	7.3	8.2	6.9
2	China Overseas Property	2669 HK	15.9	4.83	(31)	(1)	115	27.9	23.7	18.5	1.0	1.3	1.6	9.5	7.9	6.0
3	S-Enjoy	1755 HK	14.2	17.30	(28)	43	219	43.1	27.4	18.2	1.2	1.9	2.8	13.0	9.4	7.0
4	Powerlong CM	9909 HK	13.4	21.50	(14)	119	NA	41.4	37.9	26.1	0.0	1.4	1.9	6.9	6.1	5.2
5	KWG Living	3913 HK	11.4	5.65	NA	NA	NA	41.8	24.9	15.7	0.0	1.2	1.9	20.3	3.1	2.8
Small cap PMCs (Mkt cap in between HK\$3-10bn)																
1	Central China New Life	9983 HK	8.4	6.74	(34)	NA	NA	22.1	17.6	12.5	0.7	1.5	2.2	13.9	2.9	2.5
2	Times Neighbourhood	9928 HK	7.3	7.42	(34)	53	NA	48.3	26.2	15.1	0.7	1.1	1.9	6.4	4.1	3.4
4	Languang Justbon	2606 HK	5.0	28.25	(45)	(43)	32	7.7	7.3	5.5	5.0	5.2	6.9	1.9	1.6	1.3
5	Aoyuan Healthy	3662 HK	3.7	5.05	(29)	(13)	58	18.0	12.7	8.2	0.5	3.1	4.6	2.1	3.0	2.3
6	Kaisa Prosperity	2168 HK	3.0	19.68	(30)	(5)	183	12.2	11.0	8.0	0.1	3.5	4.9	8.9	2.1	1.8
PMC Avg					(24)	39	116	33.5	27.0	18.7	1.2	1.8	2.6	7.2	5.4	4.4
- Large PMCs					(11)	29	89	36.8	34.0	25.5	1.5	1.2	1.5	7.5	7.0	5.6
- Mid PMCs					(22)	80	177	36.2	33.5	22.1	0.7	1.3	2.0	7.7	6.9	5.5
- Small PMCs					(34)	9	91	28.1	14.9	9.9	1.3	2.9	4.1	6.5	2.7	2.3

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

Exhibit 43: FY19 peer comparison by GFA (small/mid Commercial/ GBA players)

	Powerlong CM (9909 HK)			Aoyuan Healthy (3662 HK)			Times Neighbourhood (9928 HK)			Kaisa Prosperity (2168 HK)			KWGL (3913 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 management (mn sqm)	16.6	18.5	12%	10.9	15.9	46%	18.8	38.4	105%	26.9	46.2	72%	13.8	21.6	57%
- Residential	10.2	11.5	13%	10.4	15.1	45%	10.8	14.3	33%	23.5	41.8	78%	11.8	18.3	56%
- Non-residential	6.4	7.0	10%	0.4	0.8	83%	8.0	24.1	201%	3.4	4.4	29%	2.0	3.3	61%
% as total GFA under management															
- Residential	62%	62%	1%	96%	95%	-1%	57%	37%	-20%	87%	90%	3%	85%	85%	0%
- Non-residential	38%	38%	-1%	4%	5%	1%	43%	63%	20%	14%	11%	-4%	15%	15%	0%
GFA under management (mn sqm)	16.6	18.5	12%	10.9	15.9	46%	18.8	38.4	105%	26.9	46.2	72%	13.8	21.6	57%
- Developed by major shareholders/parent group	NA	NA		NA	NA		13	17	30%	23	25	10%	13.8	16.9	22%
- Third parties	NA	NA		NA	NA		5	21	289%	4	21	402%	-	4.7	NA
GFA under management (%)															
- Developed by major shareholders/parent group	NA	NA		NA	NA		71%	45%	-26%	84%	54%	-31%	100%	78%	-22%
- Third parties	NA	NA		NA	NA		29%	55%	26%	16%	46%	31%	0%	22%	22%
Contracted GFA (mn sqm)	21.7	28.4	31%	NA	NA		27.7	49.3	78%	32.2	53.8	67%	24.7	33.8	37%

Source(s): The Company, Powerlong CM, Times Neighbourhood, Kaisa Prosperity, Aoyuan Healthy, ABCI Securities

Exhibit 44: FY19 peer comparison by financial metric (small/mid Commercial/ GBA players)

	Powerlong CM (9909 HK)			Aoyuan Healthy (3662 HK)			Times Neighbourhood (9928 HK)			Kaisa Prosperity (2168 HK)			KWGL (3913 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)	1,200	1,620	35%	619	901	46%	696	1,081	55%	896	1,262	41%	659	1,125	71%
- RPMS	221	285	29%	453	646	43%	575	816	42%	723	998	38%	428	759	77%
- CPMOS#	980	1,335	36%	166	254	54%	121	265	119%	173	264	52%	231	366	58%
% as total revenue															
- RPMS	18%	18%	-1%	73%	72%	-1%	83%	75%	-7%	81%	79%	-2%	65%	67%	3%
- CPMOS	82%	82%	1%	27%	28%	1%	17%	25%	7%	19%	21%	2%	35%	33%	-3%
Gross profit (RMBmn)	326	428	31%	209	337	61%	190	305	60%	277	378	37%	183	420	129%
Gross Margin (%)	27.1%	26.4%	-0.7%	33.7%	37.4%	3.7%	27.4%	28.2%	0.9%	30.9%	30.0%	-0.9%	27.8%	37.3%	9.6%
- RPMS	14.0%	12.9%	-1.1%	NA	34.6%		NA	NA		NA	NA		19.9%	34.4%	14.5%
- CPMOS	30.1%	29.3%	-0.8%	NA	44.5%		NA	NA		NA	NA		42.3%	43.4%	1.1%
Core net profit* (RMBmn)	133	208	56%	94	162	73%	64	120	89%	106	171	61%	80	187	135%
Core net margin (%)	11.1%	12.8%	1.7%	15.2%	18.0%	2.9%	9.1%	11.1%	2.0%	11.8%	13.5%	1.7%	12.1%	16.6%	4.6%
	Dec18	Dec19	YoY chg	Dec18	Dec19	YoY chg	Dec18	Dec19	YoY chg	Dec18	Dec19	YoY chg	Dec18	Dec19	YoY chg
Gross debt (RMBmn)	634	-	NA	2	100	NA	1,601	-	-100%	-	-	NA	-	-	
Cash (RMBmn)	1,040	2,616	152%	200	823	311%	1,182	975	-18%	709	755	7%	206	570	177%
Net debt/(cash) (RMBmn)	(406)	(2,616)	544%	(199)	(723)	264%	419	(975)	-333%	(709)	(755)	7%	(206)	(570)	177%
Total Equity (RMBmn)	230	1,587	590%	126	846	570%	107	899	737%	507	664	31%	200	397	99%

For Times Neighbourhood and Kaisa Prosperity, revenue from CPMOS represents PM revenue from commercial properties only

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

Source(s): The Company, Powerlong CM, Times Neighbourhood, Kaisa Prosperity, Aoyuan Healthy, ABCI Securities

Exhibit 45: 1H20 peer comparison by GFA (small/mid Commercial/ GBA players)

	Powerlong CM (9909 HK)			Aoyuan Healthy (3662 HK)			Times Neighbourhood (9928 HK)			Kaisa Prosperity (2168 HK)			KWGL (3913 HK)		
	1H19	1H20	YoY chg	1H19	1H20	YoY chg	1H19	1H20	YoY chg	1H19	1H20	YoY chg	4M19	4M20	YoY chg
GFA comparison															
GFA under management (mn sqm)	16.9	18.6	9.9%	12.5	16.9	35%	34.7	48.4	39%	36.3	48.8	34%	18.8	22.1	18%
- Residential	10.6	11.6	10.2%	11.98	16.05	34%	13.0	19.6	52%	31.7	36.3	14%	16.0	18.9	18%
- Non-residential	6.4	7.0	9.5%	0.53	0.80	51%	21.7	28.7	32%	4.6	12.5	171%	2.8	3.3	16%
% as total GFA under management															
- Residential	62%	63%	0%	96%	95%	-1%	37%	41%	3%	87%	74%	-13%	85%	85%	0%
- Non-residential	38%	37%	0%	4%	5%	1%	63%	59%	-3%	13%	26%	13%	15%	15%	0%
GFA under management (mn sqm)	16.9	18.6	10%	12.5	16.9	35%	34.7	48.4	39%	36.3	48.8	34%	18.8	22.1	18%
- Developed by major shareholders/parent group	NA	NA		NA	NA		15.3	19.7	29%	24.8	26.3	6%	14.2	17.4	22%
- Third parties	NA	NA		NA	NA		19.4	28.7	48%	11.6	22.5	94%	4.6	4.8	4%
GFA under management (%)															
- Developed by major shareholders/parent group	NA	NA		NA	NA		44%	41%	-3%	68%	54%	-14%	76%	78%	3%
- Third parties	NA	NA		NA	NA		56%	59%	3%	32%	46%	14%	24%	22%	-3%
Contracted GFA (mn sqm)	24.6	29.8	21%	NA	NA		45.0	75.3	67%	41.4	59.2	43%	30.3	34.4	14%

Source(s): The Company, Powerlong CM, Times Neighbourhood, Kaisa Prosperity, Aoyuan Healthy, ABCI Securities

Exhibit 46: 1H20 peer comparison by financial metric (small/mid Commercial/ GBA players)

	Powerlong CM (9909 HK)			Aoyuan Healthy (3662 HK)			Times Neighbourhood (9928 HK)			Kaisa Prosperity (2168 HK)			KWGL (3913 HK)		
	1H19	1H20	YoY chg	1H19	1H20	YoY chg	1H19	1H20	YoY chg	1H19	1H20	YoY chg	4M19	4M20	YoY chg
Financials comparison															
Revenue (RMBmn)	749	869	16%	392	547	40%	456	702	54%	558	741	33%	306	428	40%
- RPMS	128	168	32%	287	412	43%	344	515	50%	NA	NA		194	293	51%
- CPMOS#	621	700	13%	104	135	29%	112	187	68%	NA	NA		112	135	20%
% as total revenue															
- RPMS	17%	19%	2%	73%	75%	2%	75%	73%	-2%	NA	NA		63%	69%	5%
- CPMOS	83%	81%	-2%	27%	25%	-2%	25%	27%	2%	NA	NA		37%	31%	-5%
Gross profit (RMBmn)	198	255	29%	155	220	42%	123	199	62%	191	251	31%	104	168	61%
Gross Margin (%)	26.4%	29.3%	2.9%	39.6%	40.1%	0.6%	26.9%	28.4%	1.5%	34.3%	33.8%	-0.5%	34.1%	39.2%	5.1%
- RPMS	12.4%	21.9%	9.5%	37.2%	39.7%		NA	NA		NA	NA		28.2%	35.6%	7.4%
- CPMOS	29.3%	31.1%	1.8%	46.1%	41.5%		NA	NA		NA	NA		44.5%	47.2%	2.6%
Core net profit* (RMBmn)	87	145	66%	90	111	23%	48	84	76%	91	119	31%	39	76	97%
Core net margin (%)	11.6%	16.7%	5.1%	22.9%	20.3%	-2.6%	10.5%	12.0%	1.5%	16.2%	16.1%	-0.2%	12.7%	17.8%	5.2%
	Dec19	Jun 20	YoY chg	Dec19	Jun 20	YoY chg	Dec19	Jun 20	YoY chg	Dec19	Jun 20	YoY chg	Dec19	Apr 20	YoY chg
Gross debt (RMBmn)	-	-	NA	100	230	NA	-	-	NA	-	-	NA	-	-	
Cash (RMBmn)	2,616	2,950	13%	823	993	21%	975	979	0%	755	1,196	58%	435	440	1%
Net debt/(cash) (RMBmn)	(2,616)	(2,950)	13%	(723)	(764)	6%	(975)	(979)	0%	(755)	(1,196)	58%	(435)	(440)	1%
Total Equity (RMBmn)	1,587	1,795	13%	846	893	5%	899	962	7%	689	1,165	69%	397	439	11%

For Times Neighbourhood and Kaisa Prosperity, revenue from CPMOS represents PM revenue from commercial properties only

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

Source(s): The Company, Powerlong CM, Times Neighbourhood, Kaisa Prosperity, Aoyuan Healthy, and ABCI Securities



Risk factors

- **Unable to renew PMS contracts**

About 1.9% and 6.9% of KWGL's residential and commercial 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 the property owners' association and PMC becomes effective. Failure to renew these contracts may adversely affect PM revenue.

Exhibit 47: Expiration schedule of KWGL's property management service contract for residential properties (Apr 2020)

	Contracted GFA	
	mn sqm	%
Without fixed terms	28.512	96.1%
<u>With fixed terms</u>		
Year ending Dec 31, 2020	0.458	1.5%
Year ending Dec 31, 2021	0.112	0.4%
Year ending Dec 31, 2022	0.026	0.1%
Year ending Dec 31, 2023 and beyond	0.572	1.9%
Total	29.680	100.0%

Source(s): The Company, ABCI Securities

Exhibit 48: Expiration schedule of KWGL's PMS contract for commercial properties (Apr 2020)

	Contracted GFA	
	mn sqm	%
Without fixed terms	3.622	76.1%
<u>With fixed terms</u>		
Year ending Dec 31, 2020	0.329	6.9%
Year ending Dec 31, 2021	0.000	0.0%
Year ending Dec 31, 2022	0.704	14.8%
Year ending Dec 31, 2023 and beyond	0.102	2.1%
Total	4.758	100.0%

Source(s): The Company, ABCI Securities

- **Low cash collection rate.** In 2017, 2018, 2019 and 4M20, KWGL's collection rates for PM fees with respect to residential properties, calculated as a percentage of the PM fees cumulatively collected by the end of the relevant period, were 76.1%, 80.8%, 80.6% and 77.7% respectively, or 82.3%, 83.8%, 84.2% and 80.8% for independent third parties. In 2017, 2018 and 2019, collection rates for PM fees with respect to commercial properties were 94.5%, 77.3%, 73.1% and 65.7%, respectively, or 96.8%, 95.8%, 98.1% and 88.6% for independent third parties only. Collection of trade receivables were less from related parties than that from the independent third parties because the Group considers default risk to be lower in the former. Slow cash collection may result in mounting receivables and be subjected to impairment loss. In fact, KWGL's impairment losses on trade receivables grew from RMB 1.931mn in 2017 to RMB 2.51mn (+30%YoY) in 2018 and RMB 6.713mn (+167%YoY) in 2019.

Trade receivable turnover days from related parties declined steadily from 263 days in 2017 to 242 days in 2019. Overall trade receivable turnover days increased to 182 days for 4M20, which was primarily due to (i) tendency of property owners to settle the fee in 2H; (ii) low settlement from related parties.



Exhibit 49: Trade receivable turnover days

Trade receivable turnover days (Days)	2017	2018	2019	4M20
— Overall	137	152	147	182
— Related parties	263	260	242	283
— Independent Third Parties	79	76	63	83

Source(s): The Company, ABCI Securities

- Rising labor costs.** As a result of growing headcounts and increasing minimum wages, the labor costs in cost of sales rose from RMB 201mn in 2017, to RMB 397mn in 2019, implying a CAGR of 41% during the period. As at Apr 30, 2020, KWGL had a total of 6,863 full-time employees in China.
- Loss-making contracts.** In FY17-4M20, KWGL incurred losses of RMB 10.0mn, RMB 8.5mn, RMB 7.8mn and RMB0.7mn, respectively, with respect to 17, 13, 14 and 5 properties, including residential and commercial properties managed on a lump-sum basis for 2017- 19 and 4M20. Revenues generated from such loss-making properties were RMB 69.3mn, RMB 55.2mn, RMB 45.5mn and RMB3.4mn, respectively, for 2017, 2018, 2019 and 4M20, representing 14.9%, 8.4%, 4.0%, and 0.8% of total revenue for the same periods. The losses were mainly caused by costs incurred at the early stages of residential PM projects.
- Substantial amount of related-party transactions.** Revenue from related parties increased from RMB 146mn in 2017 to RMB 274mn (+87% YoY) in 2018, RMB 528mn (+93% YoY) in 2019, and RMB 214mn (+65%YoY) in 4M20. The percentage of revenue from related parties also rose from 31.6% of total revenue in 2017 to 41.6% in 2018, 47.0% in 2019 and 50.1% in 4M20. Rising revenue contribution from related parties may indicate over-reliance on related company.

Exhibit 50: Related-party transactions

(RMBmn)	2017	2018	2019	4M20
RPMS income	98.7	157.4	341.4	144.6
YoY change		59%	117%	100%
- Fellow subsidiaries	55.2	97.3	232.9	103.3
- Joint ventures of KWG Holdings	43.5	55.8	94.3	38.5
- Associates of the KWG Holdings	-	4.4	14.2	2.8
CPMOS income	47.7	116.5	186.7	69.6
YoY change		144%	60%	21%
- Fellow subsidiaries	39.6	100.2	172.0	62.5
- Joint ventures of KWG Holdings	8.1	16.3	14.4	6.7
- Other related parties	-	-	0.4	0.4
Total	146.4	273.9	528.2	214.2
YoY change		87%	93%	65%
As % of total revenue	31.6%	41.6%	47.0%	50.1%

Source(s): The Company, ABCI Securities

Financial statements

Consolidated income statement (2017A-2022E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019A	2020E	2021E	2022E
Revenue	463	659	1,125	1,869	3,283	4,995
Cost of services	(359)	(476)	(705)	(1,166)	(2,033)	(3,063)
Gross Profit	104	183	420	703	1,249	1,932
Selling and marketing expenses	(0)	(0)	(1)	(1)	(1)	(2)
Administrative expenses	(45)	(75)	(161)	(271)	(429)	(603)
EBIT	59	107	258	431	818	1,328
Other income	2	2	5	20	30	27
Share of profit from associates/JVs	-	(1)	2	-	-	-
Finance income	-	-	-	-	-	-
Finance expenses	(0)	(0)	(0)	(0)	(0)	(0)
Net impairment losses	(3)	(4)	(11)	(11)	(18)	(26)
Other non-recurring expenses	-	-	(3)	(22)	-	-
Profit before tax	58	104	251	418	830	1,328
Tax	(13)	(25)	(66)	(108)	(215)	(343)
Profit after tax	44	80	185	310	616	984
Minority interest	-	-	(0)	-	-	-
Net profit	44	80	185	310	616	984
Less: exceptional items	-	-	2	17	-	-
Core profit*	44	80	187	326	616	984
Per share						
Reported EPS (RMB)	0.03	0.05	0.00	0.18	0.31	0.49
Core EPS (RMB)	0.03	0.05	0.11	0.19	0.31	0.49
DPS (RMB)	-	-	-	0.06	0.09	0.15
Payout ratio (%)	0%	0%	0%	30%	30%	30%
BVPS (RMB)	0.07	0.12	0.24	1.52	1.74	2.08
Growth %						
Revenue		42.2%	70.7%	66.2%	75.6%	52.2%
Gross Profit		75.5%	129.5%	67.6%	77.6%	54.7%
EBIT		83.3%	140.1%	67.5%	89.7%	62.2%
Core profit		80.5%	135.0%	74.3%	88.7%	59.9%
Margin %						
Gross margin	22.5%	27.8%	37.3%	37.6%	38.1%	38.7%
EBIT margin	12.6%	16.3%	22.9%	23.1%	24.9%	26.6%
Core net margin	9.5%	12.1%	16.6%	17.5%	18.8%	19.7%
Revenue breakdown						
CPMOS	118	231	366	605	1,092	1,781
RPMS	345	428	759	1,265	2,191	3,214
Total	463	659	1,125	1,869	3,283	4,995
Key assumptions						
Contracted GFA (mn sqm)	17.8	24.7	33.8	55.9	95.1	134.2
- CPMOS	2.4	3.5	4.5	6.0	9.5	13.0
- RPMS	15.3	21.2	29.4	50.0	85.6	121.2
GFA under management (mn sqm)	12.2	13.8	21.6	37.8	75.4	109.3
- CPMOS	1.3	2.0	3.3	4.7	8.2	11.6
- RPMS	10.9	11.8	18.3	33.1	67.2	97.7

* Excluded listing expenses

Source(s): The Company, ABCI Securities estimates

Consolidated balance sheet (2017A-2022E)

As of Dec 31 (RMB mn)	2017A	2018A	2019A	2020E	2021E	2022E
Current assets	1,182	1,191	1,707	4,327	4,352	4,771
Bank balances and cash	254	176	417	2,811	2,407	2,307
Restricted cash	29	30	19	19	19	19
Prepayments and other receivables	684	658	705	930	1,359	1,878
Trade receivables	215	327	567	567	567	567
Income tax recoverable	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0
Non-current assets	16	26	255	454	1,117	1,716
Property, plant and equipment	3	4	5	15	25	35
Investment properties	0	4	6	6	6	6
Deferred tax assets	9	12	19	19	19	19
Other non-current assets	4	6	225	414	1,067	1,656
Total Assets	1,198	1,216	1,962	4,781	5,469	6,487
Current Liabilities	1,075	1,014	1,538	1,670	1,928	2,257
Advances from leasees	908	811	1,209	1,209	1,209	1,209
Contracted and lease liabilities	52	54	77	77	77	77
Trade payables	99	128	177	309	567	896
Borrowings	0	0	0	0	0	0
Other current liabilities	16	20	75	75	75	75
Non-current liabilities	3	3	27	27	27	27
Bank and other borrowings	0	0	0	0	0	0
Lease liabilities	2	2	5	5	5	5
Deferred Tax Liabilities	1	1	22	22	22	22
Total Liabilities	1,078	1,017	1,565	1,697	1,955	2,284
Net Assets	120	200	397	3,083	3,514	4,203
Shareholders' Equity	120	200	385	3,071	3,501	4,191
Minority Interest	0	0	13	13	13	13
Total Equity	120	200	397	3,083	3,514	4,203
Key ratio						
Gross debt (RMB mn)	-	-	-	-	-	-
Net debt/ (cash) (RMB mn)	(282)	(206)	(435)	(2,829)	(2,426)	(2,326)
Net gearing (%)	-235%	-103%	-110%	-92%	-69%	-55%

Source(s): The Company, ABCI Securities estimates

Consolidated cash flow statement (2017A-2022E)

As of Dec 31 (RMB mn)	2017A	2018A	2019A	2020E	2021E	2022E
EBITDA	61	112	283	458	881	1,453
Change in Working Capital	4	(19)	(1)	(93)	(171)	(190)
Tax payment	(4)	(23)	(24)	(108)	(215)	(343)
Operating Cash flow	60	69	258	257	496	920
Purchase of PP&E	(2)	(3)	(2)	(10)	(10)	(10)
Purchase of intangible assets	-	(3)	-	(215)	(716)	(714)
Restricted cash for bank borrowing	-	-	-	-	-	-
Cash advance to related parties	(224)	(35)	(30)	-	-	-
Repayment of related parties	29	334	9	-	-	-
Others	1	(4)	9	-	-	-
Investing Cash flow	(195)	290	(14)	(225)	(726)	(724)
Repayments of borrowings	-	-	-	-	-	-
Interest received	(0)	(0)	(0)	(0)	(0)	(0)
Equity raised	-	-	-	2,493	-	-
Dividend	-	-	-	(116)	(185)	(295)
Others	28	(437)	(4)	(13)	12	0
Financing Cash flow	27	(437)	(4)	2,363	(173)	(295)
Net cash inflow/ (outflow)	(108)	(78)	241	2,394	(403)	(100)
Cash- beginning	361	254	176	417	2,811	2,407
Cash- year-end	254	176	417	2,811	2,407	2,307

Source(s): The Company, ABCI Securities estimates

Appendix I- Company background

Exhibit 51: KWGL's Corporate information

Auditor	Ernst & Young
Headquarter	No. 75, Unit 3601 8 Huaxia Road Tianhe District Guangzhou Guangdong Province China
Joint Company secretaries	Ms. Chan Ching Nga (陳靜雅) ACS, ACIS
Authorised representatives	Mr. Kong Jiannan Ms. Chan Ching Nga

Source(s): The Company, ABCI Securities

Exhibit 52: Board of directors

Name	Position	Role and responsibilities	Relationship with other Directors and senior management
Mr. Kong Jiannan (孔健楠)	Executive Director and chief executive officer	Responsible for the overall management and operation of the Group	Brother of Mr. Kong Jianmin
Ms. Yang Jingbo (楊靜波)	Executive Director and general manager of financial Management center	Responsible for the financial management of the Group	
Mr. Wang Yue (王躍)	Executive Director and general manager of the residential properties department	Responsible for the daily operation of the residential PMS business of the Group	
Mr. Kong Jianmin (孔健岷)	Non-executive Director and the chairman of the Board	Responsible for providing guidance and formulation of business strategies for the overall development of the Group	Brother of Mr. Kong Jiannan
Ms. Liu Xiaolan (劉曉蘭)	Independent non-executive Director	Responsible for providing independent advice on the operations and management of the Group	
Mr. Fung Che Wai, Anthony (馮志偉)	Independent non-executive Director	Responsible for providing independent advice on the operations and management of the Group	
Ms. Ng Yi Kum (伍綺琴)	Independent non-executive Director	Responsible for providing independent advice on the operations and management of the Group	

Source(s): The Company, ABCI Securities

Disclosures

Analyst Certification

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Definition of equity rating

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

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

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

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