

## Poly Property Development A State-owned Specialist in Public Property Management

- We expect PPD's GFA under management to reach 529mn sqm by 2021E, implying 30% CAGR in 2019-21E, driven by residential projects from parent group as well as public projects
- Contracted sales (by GFA) of its parent group, PDH, rose at 25.0% CAGR in 2016-19, supporting future GFA growth
- Gross margin should increase from 20.9% in 2019E to 21.4% in 2021E due to fast growing CVAS business which entails higher margins
- Initiate **BUY** with DCF-based TP of HK\$ 66.30

**A supportive parent group.** Poly Property Development (PPD) is a leading comprehensive property management (PM) service provider in China with extensive scale and state-owned background. As of June 30, 2019, PPD's total contracted GFA reached 454.9mn sqm, covering 148 cities across 27 provinces, municipalities, and autonomous regions in China. PPD currently manages 846 properties, which includes 565 residential communities and 281 non-residential properties, with an aggregate GFA under management of 260.3mn sqm. PPD is wholly-owned by Poly Developments and Holdings (PDH, 600048 CH), a state-owned property developer listed in China. PDH's GFA of contracted sales amounted to 16.0mn sqm, 22.4 mn sqm, 27.7 mn sqm and 31.2mn sqm in 2016, 2017, 2018, and 2019 respectively, representing a CAGR of 25.0% in 2016-19. As at June 30, 2019, PDH's GFA under construction was 110.5mn sqm and GFA to be developed was 75.6mn sqm. Driven by projects developed by its parent company and third parties, PPD's managed GFA rose from 81.8mn sqm in 2016 to 190.5mn sqm in 2018, implying a CAGR of 53% during the period. As at June 30, 2019, its managed GFA rose further by 36.6% HoH to 260.3mn sqm. We expect GFA under management to reach 529mn sqm by 2021E implying a CAGR of 30% during 2019-21E.

**First mover in public properties management.** PPD's state-owned background has reinforced the value and credibility of its brand, earning it the opportunities to engage in PM projects in the public domain as well. As at June 2019, PPD provided PM services to a total of 210 public and other properties with a GFA under management of 132.2mn sqm. PPD also completed the acquisition of Hunan Poly Tianchuang in 2018 with a GFA under management of 6.817mn sqm, marking an important step in establishing a PM platform for educational institutions. We expect public projects as % of total revenue to increase from 13.8% in 2019E, to 19.3% in 2021E.

**Initiate BUY with TP at HK\$66.30.** Since PM agreements determine a substantial portion of PPD's revenue, we employ the DCF method for valuation based on the highly predictable cash flow. Our DCF-based TP of HK\$ 66.30 translates into 47.1x P/E and 4.9x P/B for 2020E, which is higher than the peer average. Given the uncertain development of China's coronavirus outbreak, we consider PPD as the most defensive name in the PM sector given its large cash balance of RMB7.5bn as at 2019E and SOE status.

### Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (RMB mn)	3,240	4,229	5,885	7,786	9,972
Chg (% YoY)	26.4	30.5	39.2	32.3	28.1
Core net profit (RMB mn)*	225	337	501	704	898
Chg (% YoY)	53.6	49.6	50.1	40.4	27.6
Core EPS (RMB)	0.41	0.61	0.91	1.27	1.62
Chg (% YoY)	52.6	49.8	48.9	40.4	27.6
BVPS (RMB)	0.70	1.17	11.38	12.33	13.55
Chg (% YoY)	27.5	68.4	868.9	8.4	9.9
Core P/E (x)	123.3	82.3	55.30	39.39	30.86
P/B (x)	71.8	42.7	4.40	4.06	3.70
ROE (%)	56.1	48.5	8.0	10.3	12.0
ROA (%)	10.6	13.2	6.1	7.8	9.1
DPS (RMB)	-	-	0.23	0.32	0.41
Yield (%)	-	-	0.45	0.63	0.81
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

\* Core net profit = profit attributable to owners of the company – Other gains/(losses) x 0.75

\*\* RMB /HKD: 1.106

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Feb 4, 2020

Rating: **BUY**  
TP: **HK\$ 66.30**

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

Share price (HK\$)	55.40
Est. share price return	19.7%
Est. dividend yield	0.5%
Est. total return	20.2%
Previous Rating & TP	NA
Previous Report Date	NA

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	58.75/40.80
Issued shares (mn)	553
Issued H-shares (mn)	153
Market cap (HK\$ mn)	30,654
H-share Mkt cap (HK\$ mn)	8,476
Avg daily turnover since IPO (HK\$ mn)	112.01
Major shareholder(s) (%)	
Poly Development & Holdings	72.29%

Source(s): Bloomberg, ABCI Securities

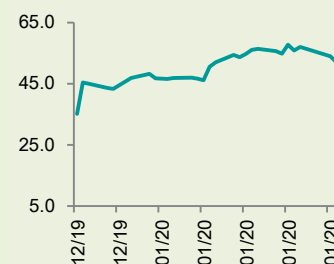
### Share Performance (%)

	Absolute	Relative*
1-mth	18.4	27.8
3-mth	NA	NA
6-mth	NA	NA

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### Share performance (HK\$)

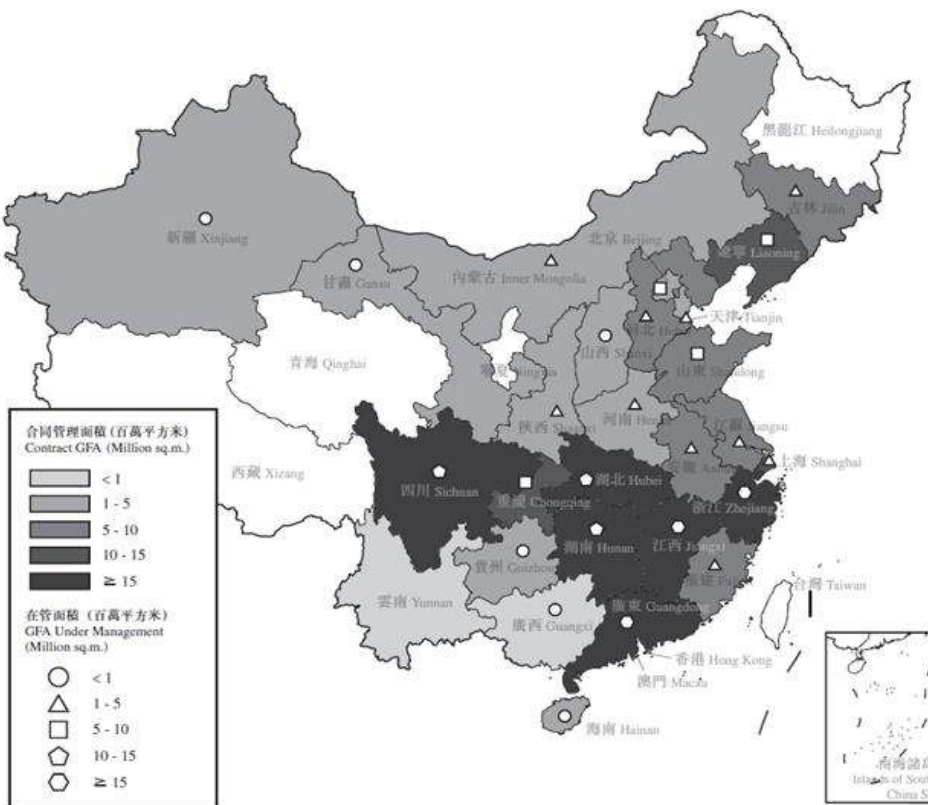


### A state-owned PMC with a focus on tier 1/2 cities

Poly Property Development (PPD, or the Group) is a leading comprehensive property management (PM) service provider in China with an extensive PM scale and a state-owned background. As of June 30, 2019, PPD's total contracted GFA reached 454.9 mn sqm, covering 148 cities across 27 provinces, municipalities, and autonomous regions in China. PPD currently manages 846 properties, which includes 565 residential communities and 281 non-residential properties, with an aggregate GFA under management of 260.3mn sqm. PPD covers a wide range of property types, including residential communities, commercial and office buildings, in addition to public and other properties (such as schools, scientific research institutions, industrial parks, public service facilities, and towns). Its geographic coverage of GFA under management in the tier 1/2 cities in China reached 154.7 mn sqm as at Dec 31, 2018, accounting for 81.2% of total GFA under management. Headquartered in Guangzhou, PPD had more than 270 subsidiaries and branch offices across 27 provinces, municipalities, and autonomous regions in China as of June 2019. According to China Index Academy, PPD was ranked fourth by overall strength in 2019 and sixth by total revenue in 2018 among 120,000 PM companies in the country.

Through organic growth and M&A, PPD's GFA under management rose from 81.8mn sqm in 2016 to 106.2mn sqm in 2017 (+29.8% YoY), 190.5mn sqm in 2018 (+79.4%YoY) and 260.3mn sqm in 1H19 (+36.6% HoH).

**Exhibit 1: PPD's projects under management in China (June 2019)**

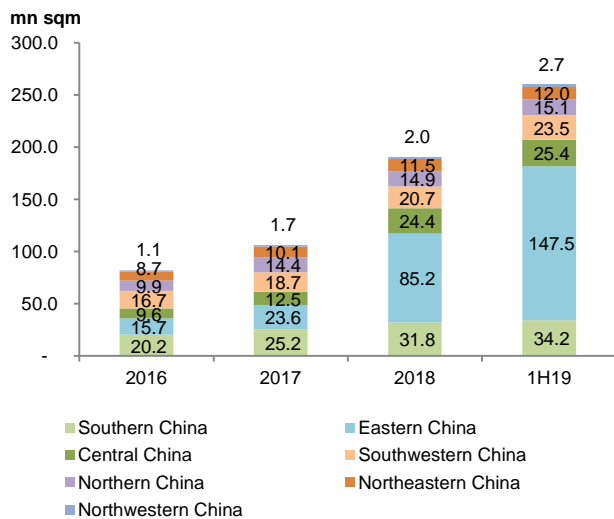


Source(s): The Company, ABCI Securities

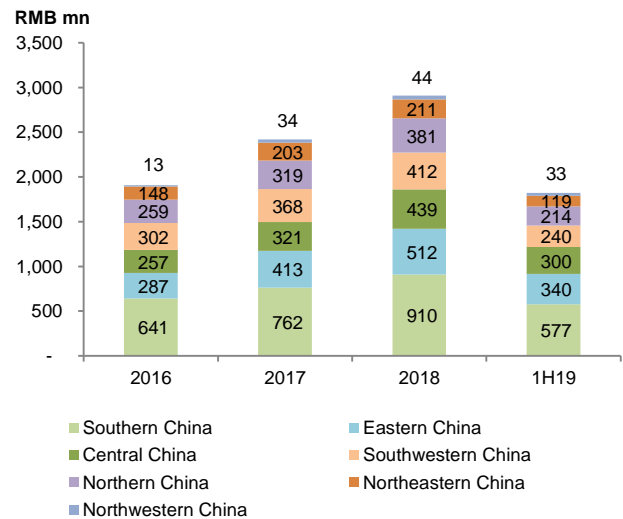
**Exhibit 2: Top 10 Property management companies in China by 2018 revenue**

Rank	Property management company	Revenue	Market share
		RMBbn	%
1	Company A	Close to 10.0	Close to 2.0%
2	Company B	More than 6.0	Close to 1.4%
3	Company C	More than 5.0	More than 1.0%
4	Company D	More than 4.5	Close to 1.0%
5	Company E	Close to 4.5	Around 0.9%
6	PPD	4.2	Close to 0.9%
7	Company F	More than 3.5	More than 0.7%
8	Company G	Close to 3.5	Around 0.7%
9	Company H	More than 3.0	Close to 0.7%
10	Company I	More than 3.0	More than 0.6%

Source(s): China Index Academy, ABCI Securities

**Exhibit 3: PPD's GFA under management by region**


Source(s): The Company, ABCI Securities

**Exhibit 4: PPD's PM revenue by region**


Source(s): The Company, ABCI Securities

## Diversified revenue mix

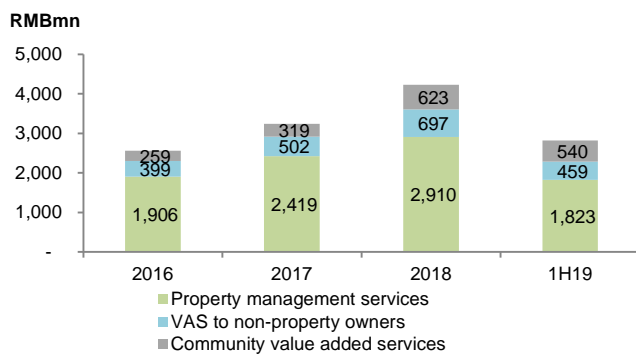
PPD has three main business lines.

**1) PM services.** PPD provides property developers, property owners, and residents with a wide range of PM services, including security, cleaning, greening and gardening, repairs, and maintenance services, with a focus on residential communities. PPD's PM portfolio also covers non-residential properties, including commercial and office buildings, public, and other properties (such as schools, scientific research institutions, industrial parks, public services facilities, and towns). The segment's revenue, which accounted for 68.8% of total revenue in 2018, expanded at a CAGR of 24% in 2016-18 and 43% YoY in 1H19.

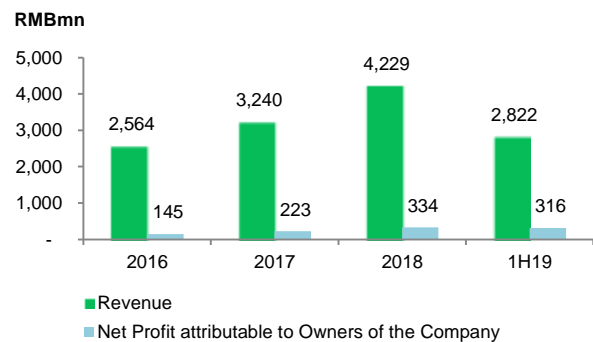
**2) Value-added services to non-property owners.** PPD provides value-added services to non-property owners (mainly property developers), including (i) pre-delivery services to property developers targeting to provide assistance in sales and marketing activities at property sales venues and display units, such as visitor reception, cleaning, security

inspection, and maintenance; (ii) other value-added services to non-property owners, such as consultancy, inspection, delivery, and commercial operation services. The segment's revenue, which accounted for 16.5% of total revenue in 2018, expanded at a CAGR of 32% in 2016-18 and 15% YoY in 1H19.

**3) Community value-added services (CVAS).** PPD provides community value-added services to property owners and residents to address their lifestyle and daily needs. Such services include: (i) community living services, such as purchase assistance, turnkey furnishing, move-in services, and housekeeping; (ii) community asset value-added services, such as parking lot management services and common area value-added services. The segment's revenue, which accounted for 14.7% of total revenue in 2018, grew at a CAGR of 55% in 2016-18 and 81% YoY in 1H19.

**Exhibit 5: PPD's revenue mix (2016-1H19)**


Source(s): The Company, ABCI Securities

**Exhibit 6: PPD's revenue and net profit attributable to owners of the company (2016-1H19)**


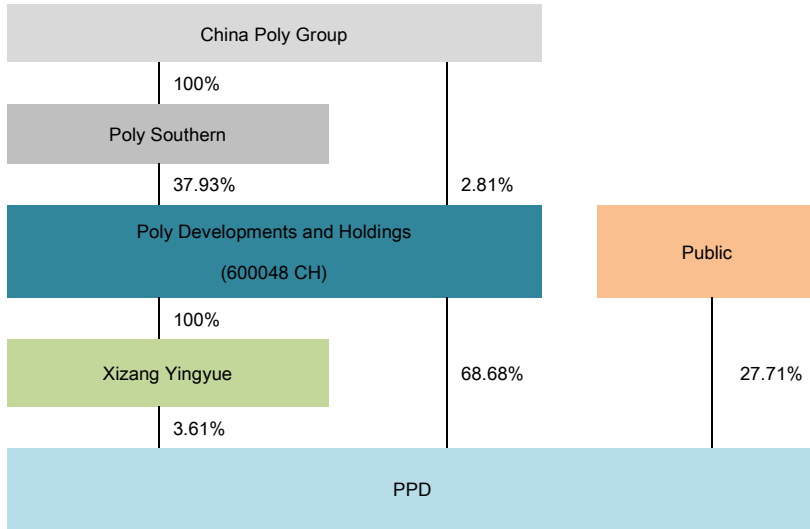
Source(s): The Company, ABCI Securities

## Shareholding structure

PPD was listed in NEEQ since Aug 2017 but was subsequently delisted on Apr 11, 2019. Currently, PPD is 72.29% owned by Poly Developments and Holdings (PDH, 600048 CH), a state-owned property developer listed in China. PDH's GFA of contracted sales amounted to 16.0mn sqm, 22.4mn sqm, and 27.7mn sqm in 2016, 2017, and 2018, respectively, representing a CAGR of 31.6% in 2016-18; the figure grew further by 13% YoY to 16.4mn sqm in 1H19. PDH focuses its business on tier1/2 cities, mainly covering the five national-level urban agglomerations in China with a total of GFA under construction of 110.5 mn sqm and GFA to be developed of 75.6 mn sqm as at June 30, 2019.

The ultimate controlling shareholder of PPD is China Poly Group (CPG), a large-scale conglomerate wholly-owned by State-owned Assets Supervision and Administration Commission of the State Council in the PRC. CPG principally engages in international trade, real estate development, light industry research and development and engineering services, arts and crafts raw materials & products management services, culture and arts business, civilian explosive materials and blasting services, and financial services.

**Exhibit 7: Shareholder structure as at Jan 2020**



Source(s): The Company, ABCI Securities

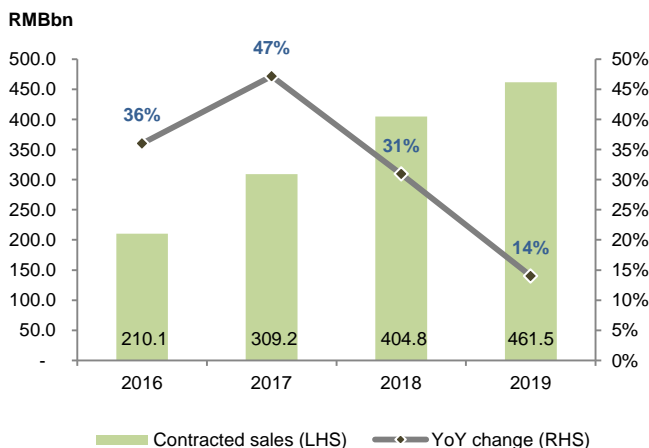
## Property management business: A powerful state-owned parent paves the way for success

### A parent with a leading position in property development

PPD's fast-growing GFA under management is driven by projects from its parent group, PDH, and those developed by independent third parties. PPD's managed GFA rose from 81.8mn sqm in 2016 to 190.5mn sqm in 2018, implying a 53% CAGR during the period, and increased further by 36.6% HoH to 260.3mn sqm as at June 2019.

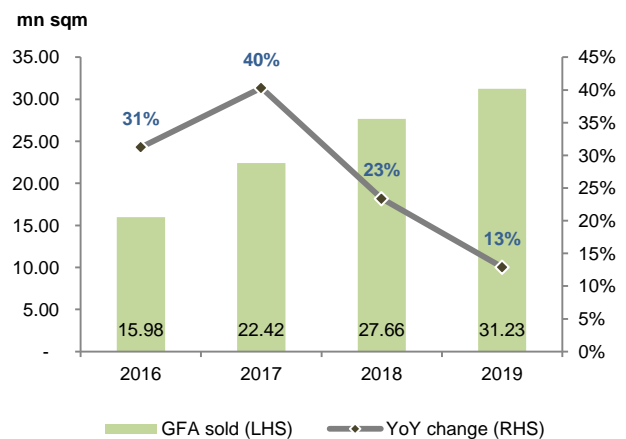
PDH is a leading property developer in China ranking fourth in 2019 by China Index Academy and 245<sup>th</sup> on the Forbes Global 2000 List in 2019. PDH contracted sales increased 31% YoY to RMB 404.8bn in FY18 and 14%YoY to RMB 461.5bn in 2019; while contracted GFA rose 23% YoY to 27.66mn sqm in FY18 and 13% YoY to 31.23mn sqm in 2019. PDH also acquired new land reserves of 31.16mn sqm in FY18. As of June 30, 2019, PDH's GFA under construction and GFA to be developed were 110.5mn sqm and 75.6mn sqm. During 2016-1H19, PPD had maintained a close and congenial business relationship with PDH and provided PM services to substantially all of the properties developed by PDH (including its joint ventures and associates). Increasing landbank and stable development of PDH would help solidify PPD's industry reputation and market position as a comprehensive PM service provider in China.

**Exhibit 8: PDH's contracted sales**



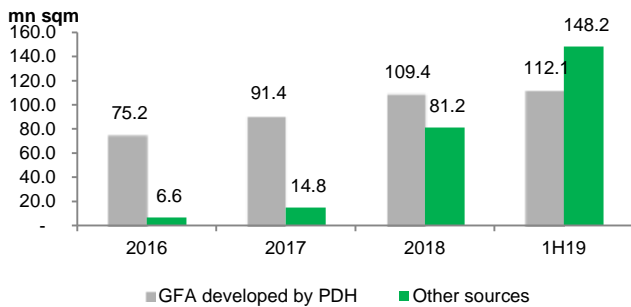
Source(s): PDH, ABCI Securities

**Exhibit 9: PDH's contracted GFA**



Source(s): PDH, ABCI Securities

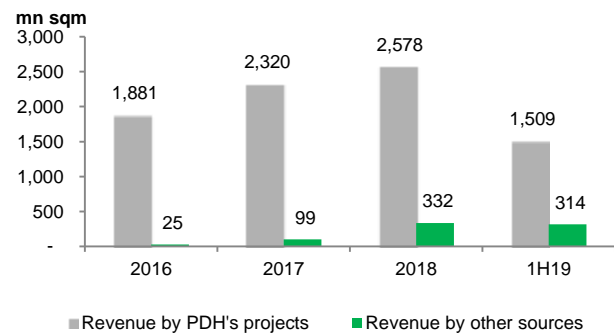
In addition to providing services to properties developed by PDH, the Group has been rigorously expanding the market share for projects from other sources by leveraging its reputable brand and high-quality services in recent years. PPD participated in 121, 216, 264, and 151 tender and bidding processes for PM projects from other sources in 2016, 2017, 2018, and 1H19, respectively, and the tender success rates were 52.1%, 49.1%, 44.7%, and 36.4%, respectively. GFA under management from other sources grew at a CAGR of 251% to 81.2mn sqm as of Dec 31, 2018 from 6.6mn sqm as of Dec 31, 2016, and rose further by 83%HoH to 148.2mn sqm as of June 30, 2019. As of June 30, 2019, projects from other sources represented 56.9% of total GFA under management.

**Exhibit 10: Total GFA under management from projects developed by PDH and other sources**


(1) Properties developed by PDH refers to properties developed, solely or jointly with other parties, by members of Poly Developments and Holdings Group (including its joint ventures and associates)

(2) Other sources of projects refer to (i) property developers other than PDH (including its joint ventures and associates) and (ii) property owners of certain of public and other properties (such as schools and public service facilities)

Source(s): The Company, ABCI Securities

**Exhibit 11: PM revenue from projects developed by PDH and other sources**


(1) Properties developed by PDH refers to properties developed, solely or jointly with other parties, by members of Poly Developments and Holdings Group (including its joint ventures and associates)

(2) Other sources of projects refer to (i) property developers other than PDH (including its joint ventures and associates) and (ii) property owners of certain of public and other properties (such as schools and public service facilities)

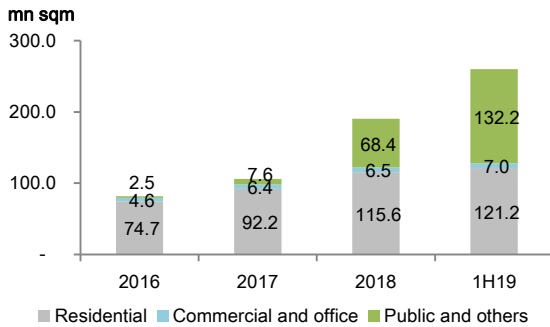
Source(s): The Company, ABCI Securities

## A specialist in public properties management

PPD's state-owned background has reinforced the value and credibility of its brand and has enabled the Group to take on PM engagements, especially of public and other properties. As of June 2019, PPD provided PM services to a total of 210 public and other properties with a GFA under management of 132.2mn sqm. GFA under management for public and other properties rose from 2.5mn sqm in 2016, to 68.4mn sqm in 2018, representing 427% CAGR during the period. The key channels for PPD to secure new projects from public and other properties are:

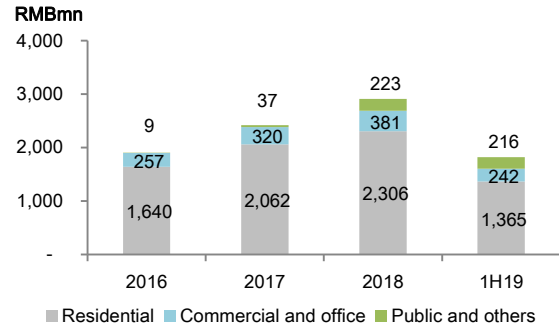
- **Cooperation with other state-owned enterprises (SOEs):** PPD has actively promoted the integration of social resources through strategic cooperation with government agencies and SOEs and public institutions at both central and local levels for the establishment of "all-for-one" PM of public services properties. In 2016-1H19, such strategic business partners included a subsidiary of China National Machinery Industry Corporation Ltd. (a Fortune 500 corporation), the Sichuan Ziyang High-tech Industry Park Management Committee, and other state-owned or state-vestee entities in Hunan and Jiangxi provinces in the PRC.
- **Rural revitalization:** PPD seized the opportunities under the reform of power decentralization and government function transition, as well as the strategy of rural revitalization, with a view to optimizing resource allocation for the integrated development of urban and rural China. PPD is dedicated to exploring innovative cooperation models for the PM system of public services, properties, and for the establishment of the public services brand "Towns Revitalization" (鎮興中國). During 2016-1H19, the Group successfully provided PM services to the tourism town of Xitang and Tianning town in Jiashan county, Zhejiang province, and Luodian town in Shanghai.
- **M&As:** PPD completed the acquisition of Hunan Poly Tianchuang in 2018 with a GFA under management of 6.817mn sqm, marking an important step in the establishment of its PM platform for educational institutions. In June 2018, PPD acquired a 60% stake in Hunan Poly Tianchuang by RMB 78mn, and contributed RMB 105mn and RMB 9.9mn to the Group's revenue and profit for the year.

**Exhibit 12: GFA under management by property type**



Source(s): The Company, ABCI Securities

**Exhibit 13: PM revenue by property type**



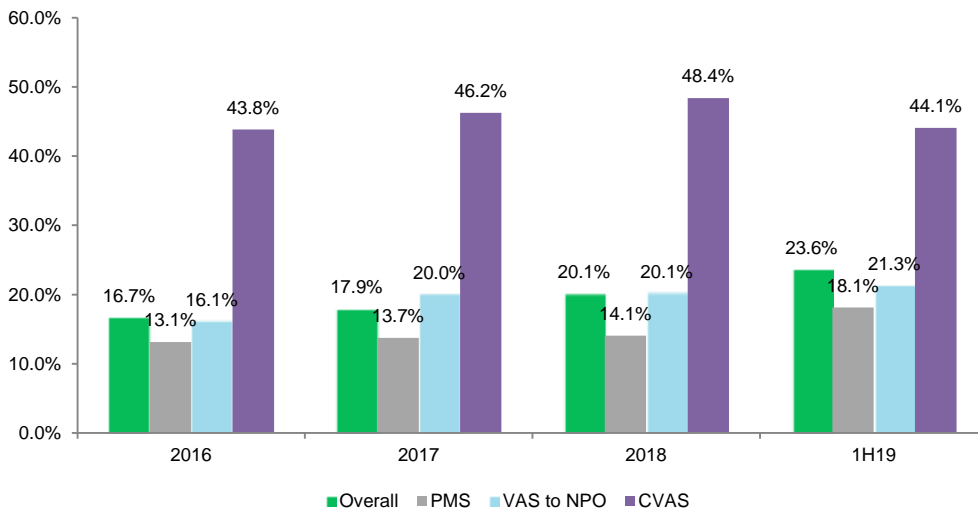
Source(s): The Company, ABCI Securities

## Room for margin improvement

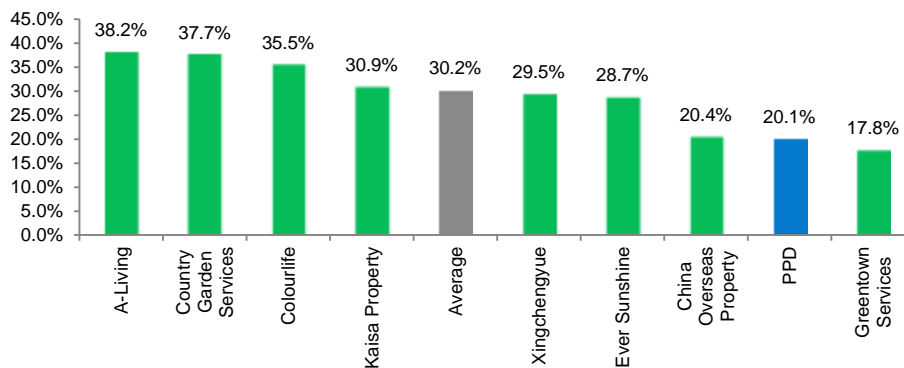
PPD's average PM fee charged for residential communities increased steadily from RMB 2.10/sqm/mth in 2016 to RMB 2.13/sqm/mth in 2017 and RMB 2.14/sqm/mth in 2018 and RMB 2.18/sqm/mth 1H19. PPD's gross margin of 20.1% in 2018 is lower than the average of listed peers (30.2%). We believe the fee rate has been underpriced; hence, we expect the Group to revise up its fee rate for new projects from PDH (as reflected by the 2.7%HoH increase in fee rate to RMB 2.27/sqm for projects developed by PDH in 1H19).

PPD's gross margin rose 2.2ppt YoY to 20.1% in 2018 and 3.5ppt HoH to 23.6% in 1H19. Besides, the falling no. of unsold units, which are usually charged at a discount to sold units, may also help support margin in our view. In line with the general market practice, PM fees for unsold units in 2016-1H19 were generally discounted by 50-70%. PDD provided PM services for the aforementioned property units mainly to PDH, from which PPD generated revenues of RMB 198.5mn, RMB126.5mn (-36%YoY), RMB 89.5mn (-29%YoY) and RMB 55.5mn for 2016, 2017, 2018, and 1H19, respectively.



**Exhibit 14: PPD's gross margin**


Source(s): The Company, ABCI Securities

**Exhibit 15: Gross margin comparison (2018)**


Source(s): Annual reports of respective companies, ABCI Securities



**Exhibit 16: Average property management fee for residential projects**

(RMB/sqm/mth)	2016	2017	2018	1H19
<b>Projects developed by PDH</b>				
- Preliminary stage for residential properties <i>YoY/HoH change</i>	2.16	2.22 2.8%	2.24 0.9%	2.30 2.7%
- Property owners' association stage for residential properties <i>YoY/HoH change</i>	1.61	1.69 5.0%	1.90 12.4%	1.96 3.2%
<b>Overall- Projects developed by PDH</b> <i>YoY/HoH change</i>	<b>2.14</b>	<b>2.19</b> 2.3%	<b>2.21</b> 0.9%	<b>2.27</b> 2.7%
<b>Other sources</b>				
- Preliminary stage for residential properties <i>YoY/HoH change</i>	1.20	1.22 1.7%	1.43 17.2%	1.45 1.4%
- Property owners' association stage for residential properties <i>YoY/HoH change</i>	1.17	1.59 35.9%	1.65 3.8%	1.68 1.8%
<b>Overall- Other sources</b> <i>YoY/HoH change</i>	<b>1.19</b>	<b>1.31</b> 10.1%	<b>1.47</b> 12.2%	<b>1.48</b> 0.7%
<b>Overall</b> <i>YoY/HoH change</i>	<b>2.10</b>	<b>2.13</b> 1.4%	<b>2.14</b> 0.5%	<b>2.18</b> 1.9%

Source(s): The Company, ABCI Securities

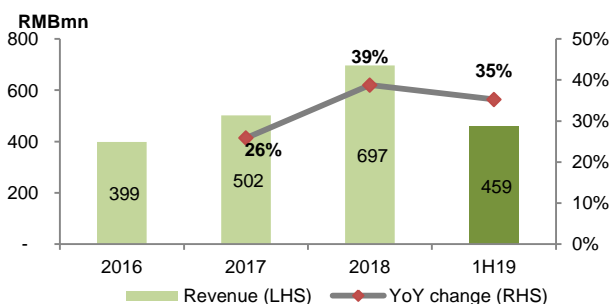
## Value-added services to non-property owners (VAS to NPO): Rising presales activities of PDH drive growth

Leveraging on its PM expertise, PPD has been offering value-added services to non-property owners (VAS to NPO), such as property developers and other PM companies since 2011. PPD's VAS to NPO include the following categories:

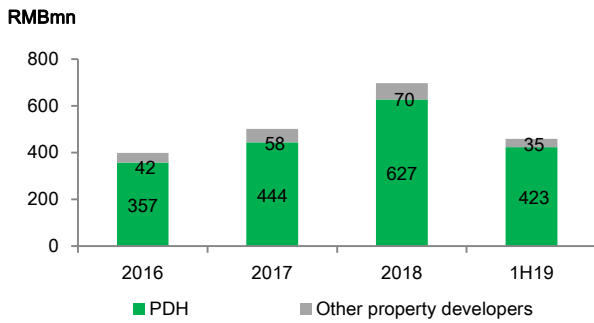
- a) **Pre-delivery services:** PPD provides pre-delivery services to property developers to assist with their sales and marketing activities at property sales venues and display units. Pre-delivery services generally include visitor reception, cleaning, security inspection, maintenance, and other customer-related services for potential property buyers.
- b) **Other VAS to NPO:** PPD's other value-added services to non-property owners included:
  - (i) Consultancy services to property developers and other PM companies concerning property development design and construction plan from the perspective of PM
  - (ii) Inspection services to property developers prior to delivery of property units
  - (iii) Delivery services to property developers for the management of property delivery venues, and
  - (iv) Commercial operation services to property developers mainly with respect to operation and rental assistance for carpark spaces and business tenant sourcing of office buildings.

The majority of VAS to NPO revenue was from PDH, which accounted for 90.0% of the division's revenue or 14.8% of total revenue in 2018. As PDH is one of the largest customers for the Group's VASNPO business, revenue growth of the segment will be dependent on PDH's presales activities.

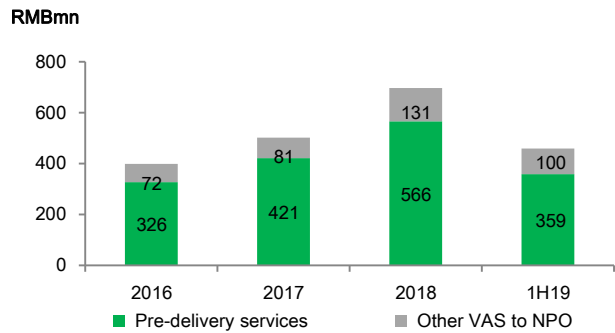
**Exhibit 17: Revenue from VAS to NPO**



Source(s): The Company, ABCI Securities

**Exhibit 18: Revenue from VAS to NPO by customer**


Source(s): The Company, ABCI Securities

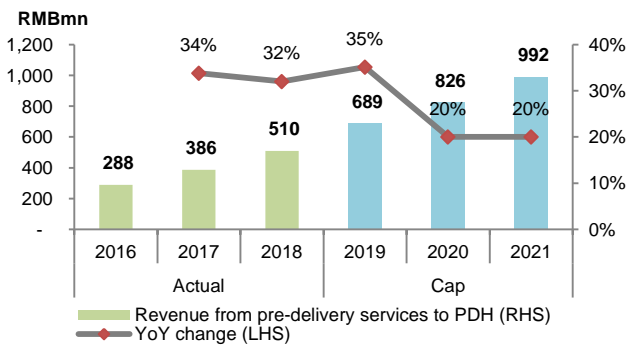
**Exhibit 19: Revenue from VAS to NPO by service type**


Source(s): The Company, ABCI Securities

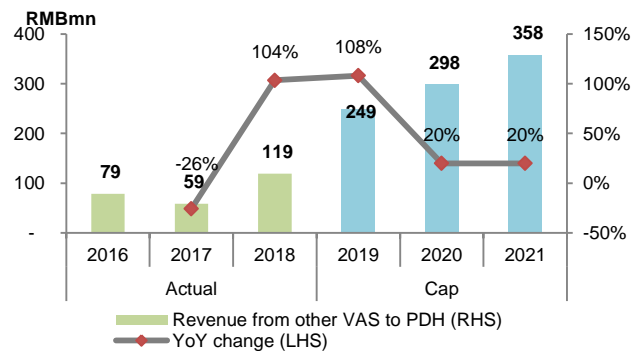
### Connected Transaction Framework Agreement regarding provision of pre-delivery services and other VAS

Pursuant to the Connected Transaction Framework Agreement, PPD will conduct the following continuing connected transactions with PDH and its associates that shall be subject to the reporting, annual review, announcement and independent Shareholders' approval requirements: 1) Provision of pre-delivery services, for the purposes of assisting in property sale activities, which include visitor reception, cleaning, security inspection, maintenance and other customer related services; and 2) Provision of Other VAS, which includes (a) other VAS to NPO, such as consultancy, inspection, delivery and commercial operation services; and (b) community value-added services.

The annual cap suggests a steady revenue growth of 20-35%YoY for pre-delivery services provided to PDH in 2019-21, reflecting an expanding property development pipeline of PDH in our view.

**Exhibit 20: Annual cap on pre-delivery services to PDH**


Source(s): The Company, ABCI Securities

**Exhibit 21: Annual cap on other VAS to PDH**


Source(s): The Company, ABCI Securities

## Community value-added services (CVAS): New products to drive growth

PPD has provided CVAS since 2011. Such services include:

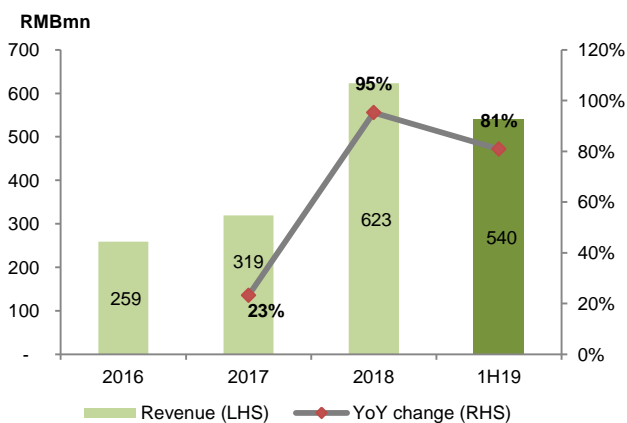
- **Community living services.** The category mainly comprises (i) purchase and delivery assistance for groceries, seasonal products, and other daily necessities, (ii) home outfitting, turnkey furnishing and move-in services, (iii) other community convenience services in collaboration with third-party merchants such as tourism services, housekeeping services, repair and maintenance services of home appliances and express delivery assistance
- **Community asset value-added services.** The category mainly includes (i) parking lot management services, and (ii) common area value-added services, such as common area rental assistance.

PPD provides these CVAS either by itself or in collaboration with qualified third-party merchants. For CVAS directly offered by the Group, PPD generally charges a fee for such services at a pre-negotiated fixed amount on a per-transaction basis. For CVAS provided in collaboration with third-party merchants, PPD usually receives from these merchants a fixed fee or a percentage of the sales price as referral fees.

For common area value-added services, the Group is authorized under the PM service contracts or property owners' consents of a specific scale as required by the PRC laws to lease out the common areas on behalf of the property owners. PPD generally recognizes an agreed portion of the income generated from such services as revenue in accordance with the PM service contracts

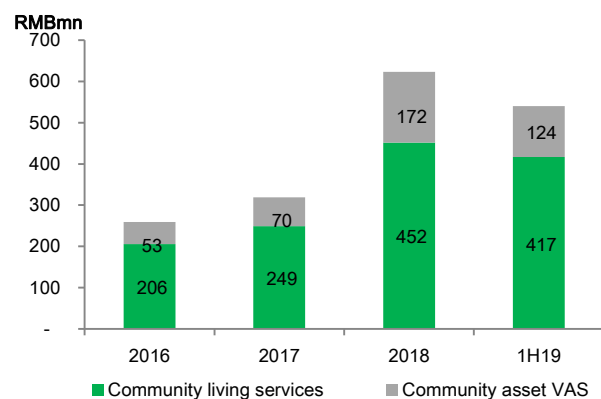
Driven by fast-growing GFA under management and expanding services in offer, revenue growth of CVAS accelerated from 23%YoY in 2017, to 95% YoY in 2018 and 81%YoY in 1H19.

**Exhibit 22: Revenue from CVAS**



Source(s): The Company, ABCI Securities

**Exhibit 23: Revenue from CVAS by service type**



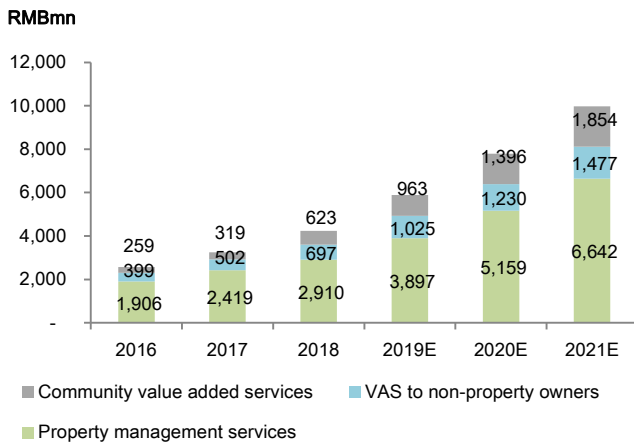
Source(s): The Company, ABCI Securities

## Earnings forecasts

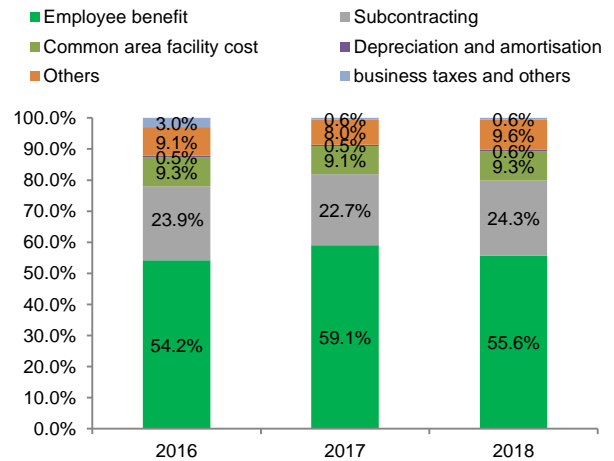
### Net profit to expand at 34% CAGR over 2019E-21E

We expect revenue to grow at 30% CAGR in 2019E-21E on expanding GFA under management (30% CAGR in our forecast) and fast CVAS revenue growth (39% CAGR in our projections) driven by the growing no. of public properties projects and a more extensive range of CVAS product offering. Meanwhile, the average management fee rate would remain stable since projects from its parent company would offset the weaker pricing from other sources.

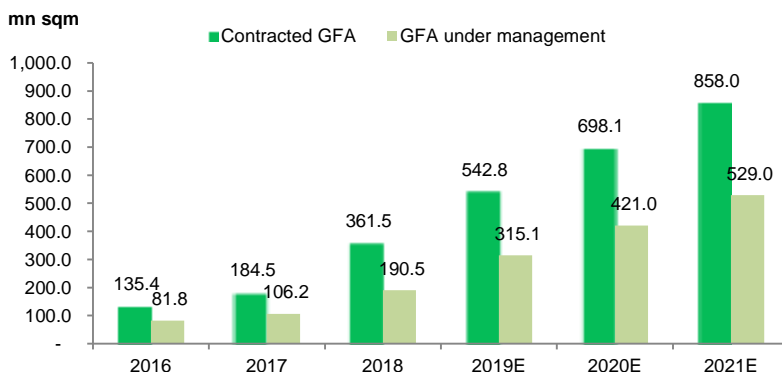
We expect gross margin to increase steadily from 20.9% in 2019E to 21.4% in 2021E due to 1) increasing contribution from higher-margin CVAS business; 2) improving efficiency on economies of scale and digitalization. Net margin would increase from 8.5% in 2019E to 9.0% in 2021E as a result of higher interest income resulted from a growing net cash balance. We have not assumed any potential M&A in the future in our forecast. Based on the increasing revenue and improving gross margin, we forecast net profit to increase from RMB 501mn in 2019E to RMB 898mn in 2021E, representing a 34% CAGR in 2019E-21E.

**Exhibit 24: PPD's revenue breakdown**


Source(s): The Company, ABCI Securities estimates

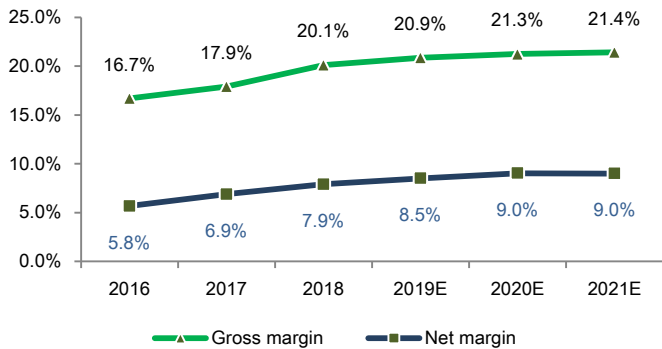
**Exhibit 25: PPD's cost of sales breakdown**


Source(s): The Company, ABCI Securities

**Exhibit 26: PPD's GFA under management & contracted GFA**


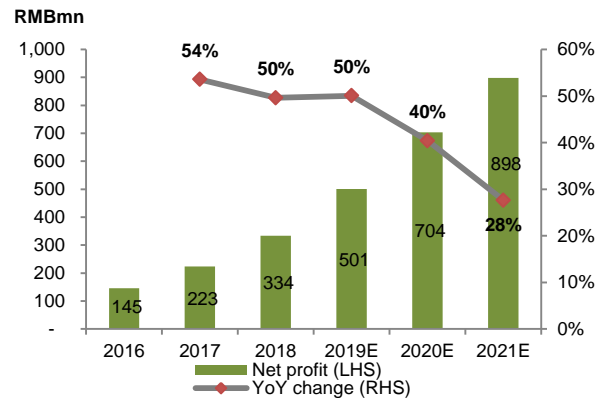
Source(s): The Company, ABCI Securities estimates

**Exhibit 27: Gross and core net margins**



Source(s): The Company, ABCI Securities estimates

**Exhibit 28: PPD's net profit**

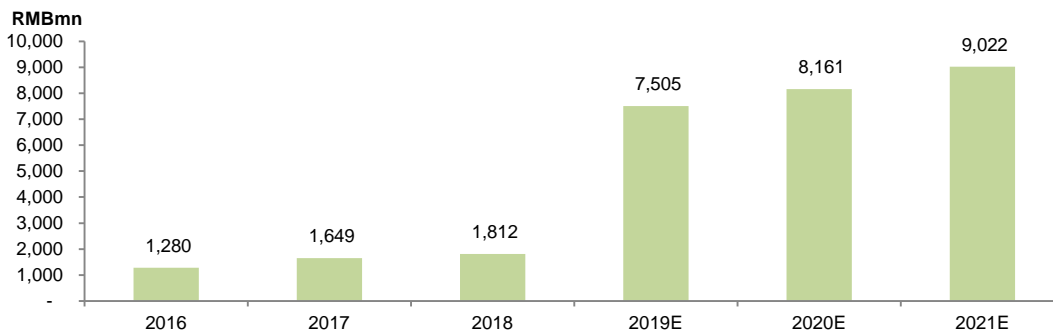


Source(s): The Company, ABCI Securities estimates

### A net-cash company with clean structure

PPD has been in a net cash position since 2016. Net cash balance grew from RMB 1,280mn in 2016, to RMB 1,812mn in 2018. Driven by a healthy free cash flow, we expect net cash balance to reach RMB 9,022mn by 2021E. Besides, the Group has successfully kept its outstanding balance due to/from related parties at relatively low levels. Trade receivable balance due from related parties was RMB 99.71mn in 2018, equivalent to 3.7% of total assets. Other payables due to related parties were RMB 28.03mn in 2018, representing 5.7% of total liabilities.

**Exhibit 29: Net cash balance**



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

## Initiate BUY with TP HK\$66.30 based on DCF

### DCF valuation based on 7% WACC

The market favors the use of comparative approach (e.g., fair value-to-earnings multiple) in valuing PMCs, which emphasizes mostly on short-term earnings instead of balance sheet position and longer-term growth. A substantial proportion of PPD's revenue is determined by PM agreement, which generates recurrent income in the long term. As such, we believe DCF valuation would offer a more accurate assessment of the Group's value based on its high cash flow visibility. Our DCF-derived TP for PPD (with a WACC of 7%; terminal growth of 1%) is HK\$ 66.30, which translates into 47.1x P/E and 4.9x P/B for 2020E.

#### Exhibit 30: Sensitivity analysis of DCF valuation to changes in WACC (2020E)

	WACC				
Terminal growth	5.0%	6.0%	7.0%	8.0%	9.0%
0%	84.5	71.2	61.9	55.0	49.7
1%	96.1	78.1	66.3	58.0	51.8
2%	115.4	88.5	72.5	61.9	54.4

	WACC				
Variance from the base case Terminal growth	5.0%	6.0%	7.0%	8.0%	9.0%
0%	27%	7%	-7%	-17%	-25%
1%	45%	18%	0%	-13%	-22%
2%	74%	33%	9%	-7%	-18%

Source(s): ABCI Securities estimates

### Comparative approach

We consider the HK-listed sizeable PMCs (with GFA under management >100mn sqm) that are parent-dependent to be PPD's comparable peers. These include CGS (6098 HK), A-living (3319 HK), and COP (2669 HK). Our TP implies 47.1x 2020E P/E for PPD, which is higher than the peer trading average at 29.3x 2020E P/E.

In particular, we have identified COP to be the Group's closest peer due to its SOE background. In our view, PPD deserves a premium over COP (with 2020E earnings multiple of 24.8x) given (1) the former's faster growth in GFA under management at 79% YoY in 2018 (vs. 10%YoY for COP) and 37% HoH in 1H19 (vs. 0.9%HoH for COP); 2) faster net profit growth at 50% in 2018 (vs. 31% YoY for COP) and 46% YoY in 1H19 (vs. 13% YoY for COP).

We believe PPD should be priced at a premium over CGS, the largest PMC by market cap for two reasons. (1) Though profit size of CGS (RMB 865mn) was 159% higher than that of PPD, revenues from related parties accounted for 20.3% of total in CGS as compared to 16.0% in PPD in 2018 in PPD. Margins of CGS could be inflated by high-margin projects from parent. Meanwhile, both companies have a similar GFA under management in 2018. PPD's better earnings quality should support its higher valuation; (2) SOE status of PPD would help it expand public properties portfolio.



**Exhibit 31: Valuation of HK-listed PMCs operating in China**

PRC Property	Ticker	Mkt Cap HK\$ (bn)	Share Price (HK\$)	Performance			Valuation												
				3M	YTD	2019	P/E			Yield (%)			P/B						
				% Chg	% Chg	% Chg	2018A	2019E*	2020E*	2018A	2019E*	2020E*	2018A	2019E*	2020E*				
<b>Large PMC (GFA under management &gt;100mn sqm)</b>																			
1	Country Garden Services	6098 HK	71.7	26.4	(1)	1	112	75.0	42.3	31.8	0.4	0.6	0.8	27.8	13.0	10.0			
2	A-Living	3319 HK	35.4	26.5	12	(1)	161	40.0	28.2	20.0	1.2	1.4	2.0	5.8	5.2	4.4			
3	Poly Property Development	6049 HK	30.7	55.4	NA	19	33	82.3	55.3	39.4	0.0	0.5	0.6	42.6	4.4	4.1			
4	Greentown Services	2869 HK	24.2	8.69	(1)	2	44	45.3	40.3	30.3	1.0	0.9	1.2	9.1	8.2	6.7			
5	China Overseas Property	2669 HK	16.2	4.92	3	0	116	40.2	31.5	24.8	0.8	1.0	1.3	12.4	10.7	8.2			
<b>Small/mid-sized PMC (GFA under management &lt;100mn sqm)</b>																			
1	Ever Sunshine	1995 HK	10.0	6.52	38	23	199	71.9	43.3	27.8	0.4	0.7	1.1	9.8	8.3	6.7			
2	S-Enjoy	1755 HK	11.1	13.6	30	12	222	66.9	39.7	27.1	0.8	NA	NA	11.9	NA	NA			
3	Justbon	2606 HK	7.7	43.2	NA	(13)	34	17.9	16.2	12.1	0.0	1.9	2.5	11.5	2.8	2.4			
4	Aoyuan Healthy	3662 HK	4.0	5.50	(9)	(6)	NA	42.6	21.8	13.6	0.4	1.7	2.8	4.7	4.4	3.8			
5	Kaisa Prosperity	2168 HK	2.6	18.8	8	(10)	187	22.6	15.8	11.9	1.0	1.6	2.1	4.7	4.2	3.3			
<b>PMC Avg</b>								<b>10</b>	<b>3</b>	<b>123</b>	<b>50.5</b>	<b>33.4</b>	<b>23.9</b>	<b>0.6</b>	<b>1.1</b>	<b>1.6</b>	<b>14.0</b>	<b>6.8</b>	<b>5.5</b>
- Large PMC <sup>(1)</sup>								<b>3</b>	<b>4</b>	<b>93</b>	<b>56.6</b>	<b>39.5</b>	<b>29.3</b>	<b>0.7</b>	<b>0.9</b>	<b>1.2</b>	<b>19.6</b>	<b>8.3</b>	<b>6.7</b>
- Small/mid-sized PMC <sup>(2)</sup>								<b>17</b>	<b>1</b>	<b>161</b>	<b>44.4</b>	<b>27.4</b>	<b>18.5</b>	<b>0.5</b>	<b>1.4</b>	<b>2.1</b>	<b>8.5</b>	<b>4.9</b>	<b>4.1</b>

\*Bloomberg's consensus forecast

(1) Includes Country Garden Services, A-Living, Poly Property Development, Greentown Services and China Overseas Property

(2) Includes Ever Sunshine, S-Enjoy, Justbon, Aoyuan Healthy and Kaisa Prosperity

Source(s): Bloomberg, ABCI Securities

**Exhibit 32: FY18 peer comparison by GFA (Large PMCs, GFA under management > 100mn sqm)**

	A-Living (3319 HK)			Greentown Services (2869 HK)			China Overseas Property (2669 HK)			Colour Life (1778 HK)			Country Garden Services (6098 HK)			PPD (6049 HK)		
	2017	2018	YoY chg	2017	2018	YoY chg	2017	2018	YoY chg	2017	2018	YoY chg	2017	2018	YoY chg	2017	2018	YoY chg
<b>GFA comparison</b>																		
<b>GFA under management (mn sqm)</b>	78	138	76%	138	170	24%	128	141	10%	294	363	24%	123	182	48%	106	191	79%
- Residential	57	83	45%	109	133	22%	NA	NA		NA	NA		117	173	47%	92	116	25%
- Non-residential & Public	21	55	162%	29	37	30%	NA	NA		NA	NA		6	9	57%	14	75	435%
<b>% as total GFA under management</b>																		
- Residential	73%	60%	-13%	79%	78%	-1%	NA	NA		NA	NA		95%	95%	0%	87%	61%	-26%
- Non-residential	27%	40%	13%	21%	22%	1%	NA	NA		NA	NA		5%	5%	0%	13%	39%	26%
<b>GFA under management (mn sqm)</b>	78	138	76%	NA	NA		NA	NA		NA	NA		123	182	48%	106	191	79%
- Developed by major shareholders/parent group	45	53	18%										109	145	33%	91	109	20%
- Third parties	33	85	155%										13	36	170%	15	81	448%
<b>GFA under management (%)</b>																		
- Developed by major shareholders/parent group	57%	38%	-19%	NA	NA		NA	NA		NA	NA		89%	80%	-9%	86%	57%	-29%
- Third parties	43%	62%	19%	NA	NA		NA	NA		NA	NA		11%	20%	9%	14%	43%	29%
<b>Contracted GFA (mn sqm)</b>	126	230	82%	288	363	26%	NA	NA		436	554	27%	329	505	53%	184	362	96%

Source(s): The Company, A-Living , China Overseas Property, Colour Life, Country Garden Services, ABCI Securities

**Exhibit 33: 1H19 peer comparison by GFA (Large PMCs, GFA under management > 100mn sqm)**

	A-Living (3319 HK)			Greentown Services (2869 HK)			China Overseas Property (2669 HK)			Colour Life (1778 HK)			Country Garden Services (6098 HK)			PPD (6049 HK)		
	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	FY18	1H19	HoH chg
<b>GFA comparison</b>																		
<b>GFA under management (mn sqm)</b>	109	211	94%	151	184	22%	131	142	8%	334	365	9%	136.8	216.8	58%	191	260	37%
- Residential	NA	124		120	145	21%	NA	NA		NA	NA		NA	NA		116	121	5%
- Non-residential & Public	NA	87		31	40	28%	NA	NA		NA	NA		NA	NA		75	139	86%
<b>% as total GFA under management</b>																		
- Residential	NA	59%		80%	79%	-1%	NA	NA		NA	NA		NA	NA		61%	47%	-14%
- Non-residential	NA	41%		21%	22%	1%	NA	NA		NA	NA		NA	NA		39%	53%	14%
<b>GFA under management (mn sqm)</b>	109	211	94%	NA	NA		NA	NA		NA	NA		136.8	216.8	58%	191	260	37%
- Developed by major shareholders/parent group	48	58	20%										121.9	172.4	41%	109	112	3%
- Third parties	61	153	152%										14.9	44.4	199%	81	148	83%
<b>GFA under management (%)</b>																		
- Developed by major shareholders/parent group	44%	28%	-17%	NA	NA		NA	NA		NA	NA		89%	80%	-10%	57%	43%	-14%
- Third parties	56%	72%	17%	NA	NA		NA	NA		NA	NA		11%	20%	10%	43%	57%	14%
<b>Contracted GFA (mn sqm)</b>	186	325	75%	311	391	26%	NA	NA		484	564	16%	386.0	584.2	51%	362	455	26%

Source(s): The Company, A-Living, China Overseas Property, Colour Life, Country Garden Services , ABCI Securities

**Exhibit 34: FY18 peer comparison by financial metric (Large PMCs, GFA under management > 100mn sqm)**

	A-Living (3319 HK)			Greentown Services (2869 HK)			China Overseas Property (2669 HK)			Colour Life (1778 HK)			Country Garden Services (6098 HK)			PPD (6049 HK)		
	2017	2018	YoY chg	2017	2018	YoY chg	2017	2018	YoY chg	2017	2018	YoY chg	2017	2018	YoY chg	2017	2018	YoY chg
<b>Financials comparison</b>																		
Revenue (RMBmn)	1,761	3,377	92%	5,140	6,710	31%	3,358	4,155	24%	1,629	3,614	122%	3,122	4,675	50%	3,240	4,229	31%
- PMS revenue	1,206	1,625	35%	3,560	4,461	25%	3,095	3,745	21%	1,231	3,064	149%	2,545	3,445	35%	2,419	2,910	20%
- VAS revenue**	555	1,752	216%	1,580	2,249	42%	263	410	56%	397	550	38%	577	1,230	113%	821	1,320	61%
% as total revenue																		
- PMS revenue	68%	48%	-20%	69%	66%	-3%	92%	90%	-2%	79%	85%	6%	82%	74%	-8%	75%	69%	-6%
- VAS revenue	32%	52%	20%	31%	34%	3%	8%	10%	2%	21%	15%	-6%	18%	26%	8%	25%	31%	6%
Gross profit (RMBmn)	591	1,290	118%	946	1,198	27%	802	849	6%	731	1,282	76%	1,036	1,762	70%	581	851	47%
Gross margin (%)	33.5%	38.2%	5%	18.4%	17.8%	-0.6%	23.9%	20.4%	-3.5%	43.6%	35.5%	-8.2%	33.2%	37.7%	4.5%	17.9%	20.1%	2.2%
Gross Margin (%)	33.5%	38.2%	4.7%	18.4%	17.8%	-0.6%	23.9%	20.4%	-3.5%	43.6%	35.5%	-8.2%	33.2%	37.7%	4.5%	17.9%	20.1%	2.2%
- PMS	26.9%	27.4%	0.4%	11.2%	11.4%	0.2%	21.3%	18.0%	-3.3%	35.2%	26.1%	-9.1%	29.4%	31.9%	2.5%	13.7%	14.1%	0.3%
- VAS	47.9%	48.3%	0.4%	34.7%	30.6%	-4.0%	53.9%	42.5%	-11.4%	74.8%	88.1%	13.3%	49.8%	54.0%	4.1%	30.2%	33.5%	3.2%
Core net profit* (RMBmn)	290	801	176.5%	387	483	25%	307	402	31%	321	485	51%	402	865	115%	223	334	50%
Net margin (%)	16.5%	23.7%	7.3%	7.5%	7.2%	0%	9.1%	9.7%	0.5%	19.7%	13.4%	-6.3%	12.9%	18.5%	5.6%	6.9%	7.9%	1.0%
	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg
Gross debt (RMBmn)	-	-	NA	-	-	NA	265	-	-100%	2,850	3,660	28%	-	-	NA	-	-	NA
Cash (RMBmn)	880	4,809	446%	1,990	2,329	17%	2,711	2,398	-12%	2,225	3,013	35%	2,637	3,874	47%	1,649	1,812	10%
Net debt/ (Cash) (RMBmn)	(880)	(4,809)	446%	(1,990)	(2,329)	17%	(2,446)	(2,398)	-2%	625	647	4%	(2,637)	(3,874)	47%	(1,649)	(1,812)	10%
Total Equity (RMBmn)	1,474	5,510	274%	1,992	2,405	21%	862	1,129	31%	3,505	3,256	-7%	1,542	2,330	51%	400	693	73%
Net gearing (%)	-60%	-87%	-28%	-100%	-97%	3%	-284%	-212%	71%	17.8%	19.9%	2%	-171%	-166%	5%	-412%	-262%	151%

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

\*\* VAS revenue= Revenue from CVAS + revenue from consulting services + other non-PMS revenue

Source(s): The Company, A-Living, China Overseas Property, Colour Life, Country Garden Services, ABCI Securities

**Exhibit 35: 1H19 peer comparison by financial metric (Large PMCs, GFA under management > 100mn sqm)**

	A-Living (3319 HK)			Greentown Services (2869 HK)			China Overseas Property (2669 HK)			Colour Life (1778 HK)			Country Garden Services (6098 HK)			PPD (6049 HK)		
	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg
<b>Financials comparison</b>																		
Revenue (RMBmn)	1,406	2,241	59%	2,927	3,663	25%	1,907	2,400	26%	1,757	1,812	3%	2,016	3,516	74%	1,916	2,822	47%
- PMS revenue	750	1,227	64%	2,015	2,453	22%	1,574	1,938	23%	1,467	1,511	3%	1,564	2,586	65%	1,278	1,823	43%
- VAS revenue**	655	1,014	55%	912	1,211	33%	333	463	39%	290	301	4%	452	929	106%	638	999	57%
% as total revenue																		
- PMS revenue	53%	55%	1%	69%	67%	-2%	83%	81%	-2%	84%	83%	0%	78%	74%	-4%	67%	65%	-2%
- VAS revenue	47%	45%	-1%	31%	33%	2%	17%	19%	2%	16%	17%	0%	22%	26%	4%	33%	35%	2%
Gross profit (RMBmn)	510	830	63%	551	706	28%	528	483	-9%	620	590	-5%	786	1,378	75%	443	667	50%
Gross margin (%)	36.3%	37.0%	0.7%	18.8%	19.3%	0.5%	27.7%	20.1%	-7.6%	35.3%	32.6%	-2.7%	39.0%	39.2%	0.2%	23.1%	23.6%	0.5%
Gross Margin (%)	36.3%	37.0%	0.7%	18.8%	19.3%	0.5%	27.7%	20.1%	-7.6%	35.3%	32.6%	-2.7%	39.0%	39.2%	0.2%	23.1%	23.6%	0.5%
- PMS	29.0%	26.6%	-2.5%	11.9%	11.9%	0.0%	25.8%	16.8%	-9.0%	30.3%	26.5%	-3.8%	34.5%	36.1%	1.5%	18.0%	18.1%	0.2%
- VAS	44.6%	49.7%	5.0%	34.1%	34.2%	0.1%	36.8%	34.0%	-2.7%	60.7%	63.0%	2.4%	54.4%	47.9%	-6.5%	33.4%	33.6%	0.2%
Core net profit* (RMBmn)	332	568	71.0%	217	271	25%	221	249	13%	175	216	23.2%	413	817	98%	216	316	46.0%
Net margin (%)	23.6%	25.4%	1.7%	7.4%	7.4%	0.0%	11.6%	10.4%	-1.2%	10.0%	11.9%	1.9%	20.5%	23.2%	2.8%	11.3%	11.2%	-0.1%
	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg
Gross debt (RMBmn)	-	47	na	-	19	NA	-	-	NA	3,660	2,424	NA	-	-	NA	-	-	NA
Cash (RMBmn)	4,809	4,354	-9%	2,329	2,212	-5%	2,398	2,060	-14%	3,013	1,600	-47%	3,874	5,169	33%	1,812	1,903	5%
Net debt/ (Cash) (RMBmn)	(4,809)	(4,307)	-10%	(2,329)	(2,193)	-6%	(2,398)	(2,060)	-14%	647	824	27%	(3,874)	(5,169)	33%	(1,812)	(1,903)	5%
Total Equity (RMBmn)	5,510	5,773	5%	2,405	2,525	5%	1,129	1,312	16%	3,256	3,343	3%	2,330	4,530	94%	693	867	25%
Net gearing (%)	-87%	-75%	13%	-97%	-87%	10%	-212%	-157%	55%	20%	25%	5%	-166%	-114%	52%	-261%	-220%	42%

\* Core profit= Net profit- Deferred tax adjustment- (Other (losses)/gains-net + Other exceptional items) x 0.75

\*\* VAS revenue= Revenue from CVAS + revenue from consulting services + other non-PMS revenue / # Representing Revenue from commercial operational services

Source(s): Ever Sunshine, Xinchengyue, Colour Life, Kaisa Property, Aoyuan Healthy, ABCI Securities



## Risk factors

- 43.9% of PPD's GFA under management will expire by 2020.**  
 About 43.9% of PPD's GFA under management will expire by 2020. Failure to renew these contracts, which we estimate to be mainly fixed-term PM contracts with the property owners' associations and public projects, may lead to PM revenue decline. Generally, agreements without fixed terms will terminate once a property owners' association has been set up and a new PM service agreement between such property owners' association and a PM company becomes effective.

**Exhibit 36: Expiration schedule of properties developed by PPD (June 2019)**

	Contracted GFA		%
	mn	sqm	
Without fixed terms	183.0		40.2%
Still providing services beyond contract expiration	23.2		5.1%
Year ending Dec 31, 2019	12.7		2.8%
Year ending Dec 31, 2020	187.2		41.1%
Year ending Dec 31, 2021 and beyond	48.9		10.8%
<b>Total</b>	<b>454.9</b>		<b>100%</b>

Source(s): The Company, ABCI Securities

- Low cash collection rate in 1H19.** Collection rates of PM fees from customers declined from 96.0% in 2018, to 81.3% in 1H19. Certain customers of PPD tend to pay their PM fees late at mid-year or end of year out of personal preference and convenience.
- Rising labor costs.** As a result of growing headcounts and increasing minimum wages, the employee benefit expenses in cost of sales rose from RMB 1,157mn in 2016 to RMB 1,880mn in 2018, implying a CAGR of 27% during the period. As at June 30, 2019, PPD had a total of 35,190 employees entered into labor contracts.
- Adverse impact of social security's reform.** Starting from Jan 2019, the State Tax Administration will replace Ministry of Human Resources and Social Security, to become the authority for the collection of social securities. The market was concerned that labor-intensive sector such as PM services will be affected by higher payment on social securities (if they have not been complying fully with the regulation previously). In 2016-1H19, PPD did not register for and/or fully contribute to the social insurance and housing provident funds for certain employees. Since the Group considered the total amount of such contributions to be immaterial as at June 30, 2019, no provision has been made so far.

The working report of the State Council announced in Mar 2019 provided a number of relief measures. First, the local authority will not demand recovery on any historical arrears. Moreover, share of enterprise contributions to urban workers' basic aged-care insurance will be reduced from 20% to 16% starting on May 1, 2019. This should significantly reduce the pressure on social security payments for the PMC sector.

- Substantial amount of related-party transactions.** Revenue from parent group PPH was RMB 678mn in 2018, representing 16% of total revenue. However, the percentage of revenue from parent group has been declining for the past few years from 21.9% of total revenue in 2016, to 17.3% in 2017, 16.0% in 2018 and 15.5% in 1H19.



**Exhibit 37: Related-party transactions of PPD with PDH**

**Services provided to PDH**

(RMBmn)	2016	2017	2018	1H19
<b>Property management services</b>	<b>227</b>	<b>166</b>	<b>135</b>	<b>75</b>
YoY change		-27%	-18%	3%
<b>VASNPO</b>	<b>325</b>	<b>386</b>	<b>534</b>	<b>347</b>
YoY change		19%	38%	32%
<b>CVAS</b>	<b>10</b>	<b>8</b>	<b>8</b>	<b>15</b>
YoY change		-24%	9%	146%
<b>Total</b>	<b>562</b>	<b>559</b>	<b>678</b>	<b>437</b>
YoY change		-1%	21%	27%
As % of total revenue	21.9%	17.3%	16.0%	15.5%

Source(s): The Company, ABCI Securities

- **Relatively cautious approach in M&A.** PPD only completed two major acquisitions to secure 6.817mn sqm and 2.041mn sqm in contracted GFA for 2018 and 2019. With relatively cautious approach in M&A, GFA growth from third parties may slow as the PM market turns mature and the Group may lose market share to players with a more aggressive M&A stance in our view.
- **Uncertain development of China's coronavirus outbreak.** According to news widely reported by media, some shopping mall operators such as CR Land (1109) and Future Land (1030) have waived its tenant's rental and management fee to help retail tenants survive the industry-wide hit from the coronavirus outbreak. Commercial projects accounts for 13% of PPD's 1H19 PM revenue and they may be under pressure to provide price cut in future.



## Financial statements

### Consolidated income statement (2016A-2021E)

FY Ended Dec 31 (RMB mn)	2016A	2017A	2018A	2019E	2020E	2021E
<b>Revenue</b>	<b>2,564</b>	<b>3,240</b>	<b>4,229</b>	<b>5,885</b>	<b>7,786</b>	<b>9,972</b>
Cost of services	(2,136)	(2,660)	(3,378)	(4,657)	(6,131)	(7,835)
<b>Gross Profit</b>	<b>428</b>	<b>581</b>	<b>851</b>	<b>1,228</b>	<b>1,655</b>	<b>2,138</b>
Selling and marketing expenses	-	-	-	-	-	-
Administrative expenses	(241)	(307)	(415)	(583)	(742)	(950)
<b>EBIT</b>	<b>188</b>	<b>273</b>	<b>436</b>	<b>645</b>	<b>913</b>	<b>1,188</b>
Other income	23	31	27	47	59	53
Share of results of associates	(0)	1	5	-	-	-
Finance expenses	(0)	(0)	(1)	-	-	-
Other expenses	(3)	(2)	(4)	-	-	-
<b>Profit before tax</b>	<b>207</b>	<b>303</b>	<b>463</b>	<b>693</b>	<b>972</b>	<b>1,241</b>
Tax	(58)	(79)	(127)	(188)	(264)	(337)
<b>Profit after tax</b>	<b>149</b>	<b>225</b>	<b>336</b>	<b>504</b>	<b>708</b>	<b>904</b>
Minority interest	(4)	(2)	(2)	(3)	(4)	(6)
<b>Net profit</b>	<b>145</b>	<b>223</b>	<b>334</b>	<b>501</b>	<b>704</b>	<b>898</b>
Less: exceptional items	2	2	3	0	0	0
<b>Core Profit</b>	<b>147</b>	<b>225</b>	<b>337</b>	<b>501</b>	<b>704</b>	<b>898</b>
<b>Per share</b>						
Core EPS (RMB)	0.27	0.41	0.61	0.91	1.27	1.62
DPS (RMB)	-	-	-	0.23	0.32	0.41
Payout ratio (%)	0%	0%	0%	25%	25%	25%
BVPS (RMB)	0.55	0.70	1.17	11.38	12.33	13.55
<b>Growth %</b>						
Revenue		26.4%	30.5%	39.2%	32.3%	28.1%
Gross Profit		35.6%	46.6%	44.3%	34.7%	29.2%
EBIT		45.8%	59.4%	48.0%	41.5%	30.1%
Net profit		53.6%	49.6%	50.1%	40.4%	27.6%
<b>Margin %</b>						
Gross margin	16.7%	17.9%	20.1%	20.9%	21.3%	21.4%
EBIT margin	7.3%	8.4%	10.3%	11.0%	11.7%	11.9%
Net margin	5.7%	6.9%	7.9%	8.5%	9.0%	9.0%
<b>Revenue breakdown</b>						
Property management services	1,906	2,419	2,910	3,897	5,159	6,642
VAS to non-property owners	399	502	697	1,025	1,230	1,477
Community value added services (CVAS)	259	319	623	963	1,396	1,854
<b>Total</b>	<b>2,564</b>	<b>3,240</b>	<b>4,229</b>	<b>5,885</b>	<b>7,786</b>	<b>9,972</b>
<b>Key assumptions</b>						
Contracted GFA(mn sqm)	135.4	184.5	361.5	542.8	698.1	858.0
GFA under management (mn sqm)	81.8	106.2	190.5	315.1	421.0	529.0

Source(s): The Company, ABCI Securities estimates



Consolidated balance sheet (2016A-2021E)

As of Dec 31 (RMB mn)	2016A	2017A	2018A	2019E	2020E	2021E
<b>Current assets</b>	<b>1,473</b>	<b>1,997</b>	<b>2,297</b>	<b>8,071</b>	<b>8,795</b>	<b>9,726</b>
Bank balances and cash	1,258	1,597	1,794	7,487	8,143	9,004
Time deposits	22	52	18	18	18	18
Trade receivables	128	225	196	277	345	414
Inventories	1	2	66	66	66	66
Income tax recoverable	0	0	0	0	0	0
Other current assets	65	122	224	224	224	224
<b>Non-current assets</b>	<b>103</b>	<b>115</b>	<b>255</b>	<b>241</b>	<b>230</b>	<b>221</b>
Property, plant and equipment	50	61	91	77	66	57
Intangible assets	0	0	99	99	99	99
Goodwill	0	0	0	0	0	0
Other non-current assets	53	54	65	65	65	65
<b>Total Assets</b>	<b>1,575</b>	<b>2,112</b>	<b>2,552</b>	<b>8,312</b>	<b>9,025</b>	<b>9,947</b>
<b>Current Liabilities</b>	<b>1,261</b>	<b>1,704</b>	<b>1,831</b>	<b>1,941</b>	<b>2,122</b>	<b>2,364</b>
Accruals and other payables	688	965	888	888	888	888
Contract liabilities	440	559	704	704	704	704
Trade payables	120	158	193	306	487	729
Other current liabilities	12	21	45	43	43	43
<b>Non-current liabilities</b>	<b>4</b>	<b>8</b>	<b>29</b>	<b>29</b>	<b>29</b>	<b>29</b>
Other non-current liabilities	4	8	15	15	15	15
Deferred Tax Liabilities	0	0	13	13	13	13
<b>Total Liabilities</b>	<b>1,265</b>	<b>1,712</b>	<b>1,859</b>	<b>1,970</b>	<b>2,150</b>	<b>2,393</b>
<b>Net Assets</b>	<b>311</b>	<b>400</b>	<b>693</b>	<b>6,343</b>	<b>6,875</b>	<b>7,554</b>
Shareholders' Equity	303	386	650	6,296	6,824	7,497
Minority Interest	8	14	43	46	51	57
<b>Total Equity</b>	<b>311</b>	<b>400</b>	<b>693</b>	<b>6,343</b>	<b>6,875</b>	<b>7,554</b>
<b>Key ratio</b>						
Gross debt (RMB mn)	-	-	-	-	-	-
Net debt/ (cash) (RMB mn)	(1,280)	(1,649)	(1,812)	(7,505)	(8,161)	(9,022)
Net gearing (%)	-412%	-412%	-261%	-118%	-119%	-119%

\* Our 2019-2021E forecasts have not factored in potential M&A. The rising cash balance in our forecasts could only generate a limited amount of interest income, which results in lower ROA and ROE estimates  
Source(s): The Company, ABCI Securities estimates



**Consolidated cash flow statement (2016A-2021E)**

As of Dec 31 (RMB mn)	2016A	2017A	2018A	2019E	2020E	2021E
EBITDA	210	295	466	689	954	1227
Change in Working Capital	640	138	78	32	113	173
Tax payment	(79)	(71)	(111)	(188)	(264)	(337)
<b>Operating Cash flow</b>	<b>771</b>	<b>362</b>	<b>434</b>	<b>533</b>	<b>803</b>	<b>1063</b>
Purchase of PP&E	(25)	(24)	(30)	(30)	(30)	(30)
Purchase of intangible assets	0	44	7	0	0	0
Purchase of financial assets	0	0	0	0	0	0
Proceeds from disposal of financial assets	0	0	0	0	0	0
Others	16	(41)	0	0	0	0
<b>Investing Cash flow</b>	<b>(9)</b>	<b>(21)</b>	<b>(23)</b>	<b>(30)</b>	<b>(30)</b>	<b>(30)</b>
Acquisition of non-controlling interests	(25)	0	0	(2)	0	0
Equity raised	10	0	0	5,270	0	0
Payment to shareholders	(68)	0	(210)	(125)	(176)	(225)
Others	(1)	(1)	(3)	47	59	53
<b>Financing Cash flow</b>	<b>(84)</b>	<b>(1)</b>	<b>(214)</b>	<b>5,190</b>	<b>(117)</b>	<b>(172)</b>
Net cash inflow/ (outflow)	679	340	197	5,693	656	861
<b>Cash- beginning</b>	<b>579</b>	<b>1,258</b>	<b>1,597</b>	<b>1,794</b>	<b>7,487</b>	<b>8,143</b>
<b>Cash- year-end</b>	<b>1,258</b>	<b>1,597</b>	<b>1,794</b>	<b>7,487</b>	<b>8,143</b>	<b>9,004</b>

Source(s): The Company, ABCI Securities estimates





## Disclosures

### Analyst Certification

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

### Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

### 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.

### Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report would not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients would contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2020 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183