

China / Hong Kong Company Update

Greentown Service Group

Bloomberg: 2869 HK Equity | Reuters: 2869.HK

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DBS Group Research . Equity

11 Feb 2022

HOLD (Downgrade from BUY)

Last Traded Price (10 Feb 2022): HK\$8.91 (HSI : 24,924)
Price Target 12-mth: HK\$7.82 (12% downside) (Prev HK\$16.66)

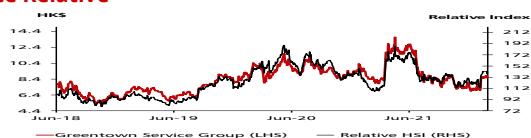
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What's New

- Ability of the company to strike a balance between service quality and growth remains uncertain
- FY21 GFA expansion missed targets due to delays stemming from COVID-19 resurgence in China
- Recent changes to the senior management team signal a possible change in corporate culture and strategy
- Downgrade to HOLD with TP of HK\$7.82

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	10,106	12,384	15,200	18,755
EBITDA	1,288	1,317	1,551	1,860
Pre-tax Profit	1,003	1,085	1,337	1,658
Net Profit	710	778	947	1,174
Net Pft (Pre Ex) (core profit)	649	778	947	1,174
Net Profit Gth (Pre-ex) (%)	36.6	19.7	21.8	23.9
EPS (RMB)	0.23	0.24	0.29	0.36
EPS (HK\$)	0.29	0.29	0.36	0.45
Core EPS (RMB)	0.21	0.24	0.29	0.36
Core EPS (HK\$)	0.26	0.29	0.36	0.45
EPS Gth (%)	35.9	3.0	21.8	23.9
Core EPS Gth (%)	24.7	12.7	21.8	23.9
Diluted EPS (HK\$)	0.26	0.29	0.36	0.45
DPS (HK\$)	0.22	0.12	0.14	0.18
BV Per Share (HK\$)	2.75	2.76	2.98	3.25
PE (X)	31.1	30.2	24.8	20.0
CorePE (X)	34.0	30.2	24.8	20.0
P/Cash Flow (X)	16.8	57.0	17.0	15.5
P/Free CF (X)	22.7	57.0	17.0	15.5
EV/EBITDA (X)	13.1	13.8	11.0	8.6
Net Div Yield (%)	2.5	1.3	1.6	2.0
P/Book Value (X)	3.2	3.2	3.0	2.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	14.8	11.0	12.5	14.3
Earnings Rev (%):		(16)	(23)	New
Consensus EPS (RMB)		0.29	0.38	0.48
Other Broker Recs:		B:22	S:1	H:5

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Uncertainties ahead

Investment Thesis

Rising uncertainty on its ability to achieve its five-year growth target. GTS secured c.128m sm of contracted GFA (vs target of 150m sm) or c.Rmb4.5bn of annualized contracted sum (vs Rmb5bn target) in 2021, due to delays from the resurgence of COVID-19 cases in Nov-Dec 21 and marked a miss to the first of their ambitious 5-year growth plan. Meanwhile, we believe GFA conversion will likely fall short of expectations as well, with consultancy services to moderate given the physical market downturn. While GTS believes such setbacks are temporary and has maintained its growth targets for now, we see a possibility that the company may have to tune down its expectations in the future.

Major adjustments to senior management team hints at a potential change in corporate culture and strategy. After the change in CEO and the retirement of its ex-Chairlady LI Hairong, GTS appointed a CFO and COO in Jan-22; both are from China Resources group. This marks a deviation from its historical practice of promoting candidates internally for senior positions. We believe such changes and appointments in the management team will likely spark meaningful changes in GTS's corporate culture and potentially on its growth strategy as well. Dust from these ends will likely take time to settle and potential impact will have to be carefully monitored.

Valuation:

Our new TP is based on 22.7x FY22F EPS, which is on par to the company's average 1-year forward PE in 2H21.

Where we differ:

Ability to balance service quality and growth yet to be proven. We believe GTS's ambitious five-year growth plan may pose challenges to the maintenance of its overall service quality, which has been the company's key competitive edge vs peers. We are less optimistic on the company's ability to strike a proper balance between the two before more evidence to suggest otherwise.

Key Risks to Our View:

Inability to maintain service quality and reputation during their five-year plan; inability to maintain profit margins; operational risks in existing VAS businesses; failure to adequately control labour costs.

At A Glance

Issued Capital (m shrs)	3,220
Mkt Cap (HK\$/US\$m)	27,853 / 3,575
Major Shareholders (%)	
Orchid Garden Investment Co., Ltd.	31.4
Li (Hairong)	13.1
Longfor Group Holdings Ltd.	9.1
Yiheng Capital Management, L.P.	5.0
Free Float (%)	41.4
3m Avg. Daily Val. (US\$m)	9.51
GICS Industry: Industrials / Commercial & Professional Service	



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Greentown Service Group

Company Background

Greentown Services was listed on the HKSE in November 2016 at an IPO price of HK\$2.20. The company is a high-end residential property management services provider that offers a comprehensive range of property, community and consulting services primarily aimed at property owners and community residents. It operates sizable contracted GFA of 575m sm as at Jun-21.

Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

Greentown Service Group

Key Assumptions

FY Dec	2021F	2022F	2023F
Average property management fee growth (%)	0.0	0.0	0.0
Average GFA conversion rate (years)	2.3	2.3	2.3

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenues (RMB m)					
Property Management Services	5,452	6,429	8,299	10,532	13,256
Property Consulting Services	1,217	1,500	1,466	1,495	1,594
Community Living Services	1,913	2,177	2,619	3,173	3,905
Total	8,582	10,106	12,384	15,200	18,755
Gross Profit (RMB m)					
Property Management Services	620	821	1,086	1,410	1,801
Property Consulting Services	409	488	462	458	484
Community Living Services	519	613	707	858	1,039
Total	1,547	1,923	2,255	2,726	3,324
Gross Profit Margins (%)					
Property Management Services	11.4	12.8	13.1	13.4	13.6
Property Consulting Services	33.6	32.6	31.5	30.7	30.3
Community Living Services	27.1	28.2	27.0	27.0	26.6
Total	18.0	19.0	18.2	17.9	17.7

Source: Company, DBS HK

Greentown Service Group

Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	8,582	10,106	12,384	15,200	18,755
Cost of Goods Sold	(7,035)	(8,183)	(10,129)	(12,474)	(15,431)
Gross Profit	1,547	1,923	2,255	2,726	3,324
Other Opg (Exp)/Inc	(903)	(953)	(1,251)	(1,490)	(1,782)
Operating Profit	644	970	1,004	1,236	1,542
Other Non Opg (Exp)/Inc	0	34	27	30	33
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(1)	0	54	71	83
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	643	1,003	1,085	1,337	1,658
Tax	(171)	(262)	(275)	(340)	(423)
Minority Interest	5	(30)	(32)	(50)	(62)
Preference Dividend	0	0	0	0	0
Net Profit	477	710	778	947	1,174
Net Profit before Except.	475	649	778	947	1,174
EBITDA	882	1,288	1,317	1,551	1,860
Growth					
Revenue Gth (%)	27.9	17.8	22.5	22.7	23.4
EBITDA Gth (%)	27.5	46.1	2.2	17.8	19.9
Opg Profit Gth (%)	24.7	50.6	3.6	23.1	24.7
Net Profit Gth (%)	(1.2)	48.8	9.5	21.8	23.9
Margins & Ratio					
Gross Margins (%)	18.0	19.0	18.2	17.9	17.7
Opg Profit Margin (%)	4.7	6.8	5.8	6.3	6.7
Net Profit Margin (%)	5.6	7.0	6.3	6.2	6.3
ROAE (%)	18.8	14.8	11.0	12.5	14.3
ROA (%)	6.9	6.6	5.9	6.6	7.3
ROCE (%)	13.8	11.2	8.7	10.2	11.8
Div Payout Ratio (%)	40.0	76.3	40.0	40.0	40.0
Net Interest Cover (x)	858.4	7,458.8	NM	NM	NM

Source: Company, DBS HK

Greentown Service Group

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	582	695	458	221	(17)
Invts in Associates & JVs	207	681	681	681	681
Other LT Assets	2,529	3,094	3,046	2,998	2,950
Cash & ST Invts	2,919	5,701	5,710	6,780	7,906
Inventory	338	346	423	520	641
Debtors	1,841	1,990	2,607	3,378	4,168
Other Current Assets	106	572	572	572	572
Total Assets	8,521	13,079	13,497	15,149	16,901
ST Debt	47	6	0	0	0
Creditors	2,627	2,963	3,029	4,063	5,049
Other Current Liab	1,476	1,716	1,716	1,716	1,716
LT Debt	436	140	0	0	0
Other LT Liabilities	982	1,140	1,140	1,140	1,140
Shareholder's Equity	2,753	6,821	7,287	7,856	8,560
Minority Interests	201	291	324	374	435
Total Cap. & Liab.	8,521	13,079	13,497	15,149	16,901
Non-Cash Wkg. Capital	(1,817)	(1,772)	(1,142)	(1,310)	(1,384)
Net Cash/(Debt)	2,436	5,555	5,710	6,780	7,906
Debtors Turn (avg days)	64.7	69.2	67.7	71.9	73.4
Creditors Turn (avg days)	121.3	129.2	111.1	106.2	109.8
Inventory Turn (avg days)	16.9	15.8	14.3	14.1	14.0
Asset Turnover (x)	1.2	0.9	0.9	1.1	1.2
Current Ratio (x)	1.3	1.8	2.0	1.9	2.0
Quick Ratio (x)	1.1	1.6	1.8	1.8	1.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	48.1	234.9	N/A	N/A	N/A
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

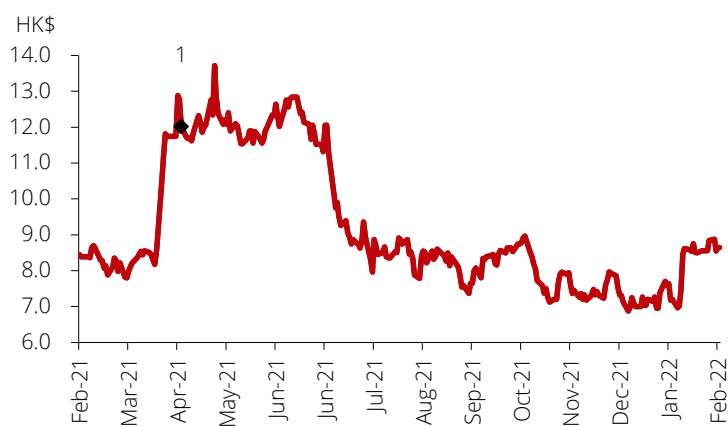
Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	643	1,003	1,085	1,337	1,658
Dep. & Amort.	238	285	285	285	285
Tax Paid	(151)	(221)	(275)	(340)	(423)
Assoc. & JV Inc/(loss)	3	28	0	0	0
(Pft)/ Loss on disposal of FAs	19	7	0	0	0
Chg in Wkg.Cap.	126	1,167	(629)	167	74
Other Operating CF	42	(953)	(54)	(71)	(83)
Net Operating CF	919	1,316	412	1,379	1,512
Capital Exp.(net)	(232)	(344)	0	0	0
Other Invts.(net)	(105)	(596)	0	0	0
Invts in Assoc. & JV	(248)	(313)	0	0	0
Div from Assoc & JV	3	2	0	0	0
Other Investing CF	(19)	(1,013)	65	71	83
Net Investing CF	(602)	(2,264)	65	71	83
Div Paid	(178)	(220)	(311)	(379)	(469)
Chg in Gross Debt	338	(340)	(146)	0	0
Capital Issues	0	3,648	0	0	0
Other Financing CF	2	122	(12)	0	0
Net Financing CF	161	3,210	(469)	(379)	(469)
Currency Adjustments	(9)	(233)	0	0	0
Chg in Cash	470	2,029	8	1,071	1,125
Opg CFPS (RMB)	0.29	0.05	0.32	0.37	0.44
Free CFPS (RMB)	0.25	0.32	0.13	0.43	0.47

Source: Company, DBS HK

Greentown Service Group

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	9-Apr-21	HK\$12.78	HK\$16.66	Buy

Source: DBS HK

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 Ken HE CFA,
 Zoe Zhang,
 Dexter CHUN,
 Ben WONG

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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