

# China / Hong Kong Company Update

## Greentown Service Group

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Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 Mar 2022

### HOLD

Last Traded Price (30 Mar 2022): HK\$7.90 (HSI : 22,232)  
Price Target 12-mth: HK\$8.46 (7% upside) (Prev HK\$7.82)

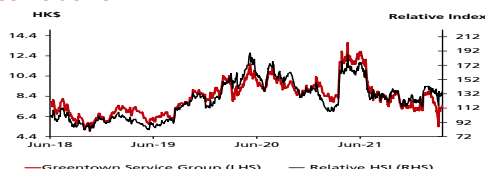
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#### What's New

- Reiterating 5-year growth targets despite missing goals set for first year
- Dust arising from a major change in senior management may take time to settle
- Ability to strike a balance between service quality and growth is uncertain
- Maintain HOLD with TP of HK\$8.46

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	10,106	12,566	15,685	19,416
EBITDA	1,288	1,543	1,802	2,221
Pre-tax Profit	1,003	1,191	1,441	1,869
Net Profit	710	846	1,029	1,334
Net Pft (Pre Ex) (core profit)	649	775	1,029	1,334
Net Profit Gth (Pre-ex) (%)	36.6	19.3	32.8	29.6
EPS (RMB)	0.23	0.26	0.32	0.41
EPS (HK\$)	0.29	0.32	0.39	0.51
Core EPS (RMB)	0.21	0.24	0.32	0.41
Core EPS (HK\$)	0.26	0.29	0.39	0.51
EPS Gth (%)	35.9	12.0	21.3	29.6
Core EPS Gth (%)	24.7	12.1	32.5	29.6
Diluted EPS (HK\$)	0.26	0.29	0.39	0.51
DPS (HK\$)	0.22	0.20	0.20	0.20
BV Per Share (HK\$)	2.76	2.67	2.85	3.15
PE (X)	27.5	24.6	20.3	15.6
CorePE (X)	30.1	26.8	20.3	15.6
P/Cash Flow (X)	14.9	nm	30.2	12.8
P/Free CF (X)	20.1	nm	30.2	12.8
EV/EBITDA (X)	11.1	10.8	9.2	7.0
Net Div Yield (%)	2.8	2.6	2.5	2.5
P/Book Value (X)	2.9	3.0	2.8	2.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	14.8	12.2	14.2	16.8
Earnings Rev (%):			9	14
Consensus EPS (RMB)			0.34	0.44
Other Broker Recs:		B:21	S:1	H:6

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

### Dark clouds ahead

#### Investment Thesis

**Uncertainty on ability to achieve its five-year growth targets.** Despite missing targets in 2021, the first year of its ambitious 5-year growth plan, GTS remains hopeful in their long-term targets (5 times its total revenue from 2020, among others). In FY22, GTS is aiming to secure Rmb6bn (+c.33% y-o-y) of contracts on an annualized basis – 50% to come from secondary (20%+ of FY22F increment target) and non-residential projects (30%+). However, we see challenges ahead for GTS to achieve these goals with 1) physical market downturn; and 2) surging competition in the 3<sup>rd</sup> party space. Even if its community living and technology services can progress as planned (+40-50% in 2022, representing a slightly higher c.25% of total revenue by 2025), we see the possibility that GTS 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 retirement of its ex-Chairlady LI Hairong, GTS appointed a CFO and COO in Jan-22, both from China Resources group. This marks a deviation from its historical practice of promoting candidates internally for senior positions. While the company indicated that there are no major changes in the overall operation and strategy direction, we believe such adjustments in the management team will likely spark meaningful changes in GTS's corporate culture and on the execution of its growth strategy. Dust from these changes is likely to take time to settle and potential impact will have to be monitored.

#### Valuation:

Our TP is based on an unchanged 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.** GTS's ambitious five-year growth plan may pose challenges in its ability to maintain service quality, which has been GTS's key competitive edge vs peers. We are less optimistic on its ability to strike a proper balance between the two before more evidence suggest otherwise.

#### Key Risks to Our View:

Inability to maintain service quality and reputation during the 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)	3,245
Mkt Cap (HK\$m/US\$m)	24,273 / 3,101
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)	9.89
GICS Industry: Industrials / Commercial & Professional Service	



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## Greentown Service Group

## FY21 result summary

FY Dec (RMB mn)	FY20	FY21	y-o-y %	FY21 Comment
<b>Revenue</b>	<b>10,106</b>	<b>12,566</b>	<b>24%</b>	
Property services	6,429	7,770	21%	
Consulting services	1,500	1,960	31%	Driven by 34% growth of project under construction
Community living services	2,177	2,836	30%	Driven by 46.1% growth of community products & services
Cost of sales and services	(8,183)	(10,236)	25%	
<b>Gross profit</b>	<b>1,923</b>	<b>2,331</b>	<b>21%</b>	
Other net gains/(losses)	96	90	-6%	Led mainly by FV gains from its investment of Binjiang
Other income	138	98	-29%	Driven by government grant to Rmb89m (FY20:130m)
Net foreign exchange gains/(losses)	3	11	302%	
Selling and marketing expense	(156)	(201)	29%	
Admin expense	(891)	(1,050)	18%	
Other operating expenses	(143)	(128)	-10%	Increased provision of impairment on certain associates as a
<b>Operating Profit</b>	<b>970</b>	<b>1,150</b>	<b>19%</b>	
Finance income	49	80	63%	
Finance costs	(49)	(54)	10%	
Share of results from JV and associates	28	21	-27%	
Gain/loss on acquisition/disposal of	5	(5)	n.a	
<b>Profit before tax</b>	<b>1,003</b>	<b>1,191</b>	<b>19%</b>	
Income tax expense	(262)	(301)	15%	
<b>Profit for the year</b>	<b>741</b>	<b>890</b>	<b>20%</b>	
Attributable to:				
<b>Owners of the company</b>	<b>710</b>	<b>846</b>	<b>19%</b>	
NCI	30	44	46%	
<b>Core profit to shareholders</b>	<b>649</b>	<b>775</b>	<b>19%</b>	Excludes FV gain from equity investments, FX and other gains
Gross profit margin (%)	19.0%	18.5%	↓ 0 ppts	
Operating profit margin (%)	8.8%	8.5%	↓ 0 ppts	
Net profit margin (%)	7.0%	6.7%	↓ 0 ppts	
Core net profit margin (%)	6.4%	6.2%	↓ 0 ppts	
SG&A as % of revenue	10.4%	10.0%	↓ 0 ppts	
Effective Tax Rate (%)	26.2%	25.2%	↓ 1 ppts	
Reported EPS (Rmb)	0.23	0.26	12%	
DPS (HKD)	0.20	0.20	0%	
DPS (RMB)	0.18	0.16	-8%	
Dividend Payout Ratio (%)	76%	63%	↓ 14 ppts	
	<b>FY20</b>	<b>FY21</b>		
Net debt to equity ratio	Net Cash	Net Cash	n.a.	
Cash level (Rmb m)	5,701	4,611	-19%	
Contracted GFA ('000 sqm)	534,800	651,800	22%	
GFA under management ('000 sqm)	250,500	304,100	21%	
Average management fee (RMB/sqm)	3.20	3.21	0%	
<b>Contracted GFA ('000 sqm)</b>	<b>534,800</b>	<b>651,800</b>	<b>20%</b>	
From Greentown China	68,572	79,862	25%	
From 3rd party	466,228	571,938	19%	
<b>GFA under management ('000 sqm)</b>	<b>250,500</b>	<b>304,100</b>	<b>18%</b>	
From Greentown China	43,838	49,264	11%	
From 3rd party	206,663	254,836	20%	
Total No. of Projects	1,759	2,132		
Average GFA per Project ('000 sqm)	142	143		
Average Management Fee (Rmb/sqm)	3.20	3.21		
Cash Collection rate	97.5%	96.1%		
Contract renewal rate	96.6%	95.7%		
<b>Segmental profit margin</b>				
Property services	12.8%	12.5%	↓ 0 ppts	
Consulting services	32.6%	30.0%	↓ 3 ppts	
Community living services	28.2%	27.1%	↓ 1 ppts	

## Greentown Service Group

Source: Company, DBS HK

### 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 651.8m sm as at Dec-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	2021A	2022F	2023F
Average property management fee growth (%)	0.0	0.0	0.0
Average GFA conversion rate (years)	2.6	2.6	2.6

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
<b>Revenues (RMB m)</b>					
Property Management Services	5,452	6,429	7,770	9,605	11,779
Property Consulting Services	1,217	1,500	1,960	2,459	2,970
Community Living Services	1,913	2,177	2,836	3,621	4,667
<b>Total</b>	<b>8,582</b>	<b>10,106</b>	<b>12,566</b>	<b>15,685</b>	<b>19,416</b>
<b>Gross Profits (RMB m)</b>					
Property Management Services	620	821	975	1,228	1,542
Property Consulting Services	409	488	588	724	874
Community Living Services	519	613	767	985	1,266
<b>Total</b>	<b>1,547</b>	<b>1,923</b>	<b>2,331</b>	<b>2,937</b>	<b>3,681</b>
<b>Gross Profit Margins (%)</b>					
Property Management Services	11.4	12.8	12.5	12.8	13.1
Property Consulting Services	33.6	32.6	30.0	29.5	29.4
Community Living Services	27.1	28.2	27.1	27.2	27.1
<b>Total</b>	<b>18.0</b>	<b>19.0</b>	<b>18.5</b>	<b>18.7</b>	<b>19.0</b>

Source: Company, DBS HK

## Greentown Service Group

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	8,582	10,106	12,566	15,685	19,416
Cost of Goods Sold	(7,035)	(8,183)	(10,236)	(12,748)	(15,735)
<b>Gross Profit</b>	<b>1,547</b>	<b>1,923</b>	<b>2,331</b>	<b>2,937</b>	<b>3,681</b>
Other Opg (Exp)/Inc	(903)	(953)	(1,181)	(1,537)	(1,863)
<b>Operating Profit</b>	<b>644</b>	<b>970</b>	<b>1,150</b>	<b>1,401</b>	<b>1,818</b>
Other Non Opg (Exp)/Inc	0	34	15	23	25
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(1)	0	26	17	26
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>643</b>	<b>1,003</b>	<b>1,191</b>	<b>1,441</b>	<b>1,869</b>
Tax	(171)	(262)	(301)	(358)	(465)
Minority Interest	5	(30)	(44)	(54)	(70)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>477</b>	<b>710</b>	<b>846</b>	<b>1,029</b>	<b>1,334</b>
Net Profit before Except.	475	649	775	1,029	1,334
EBITDA	882	1,288	1,543	1,802	2,221
<b>Growth</b>					
Revenue Gth (%)	27.9	17.8	24.3	24.8	23.8
EBITDA Gth (%)	27.5	46.1	19.8	16.7	23.3
Opg Profit Gth (%)	24.7	50.6	18.6	21.8	29.8
Net Profit Gth (%)	(1.2)	48.8	19.1	21.6	29.6
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	18.0	19.0	18.5	18.7	19.0
Opg Profit Margin (%)	4.7	6.8	6.1	6.5	7.4
Net Profit Margin (%)	5.6	7.0	6.7	6.6	6.9
ROAE (%)	18.8	14.8	12.2	14.2	16.8
ROA (%)	6.9	6.6	6.2	7.0	8.2
ROCE (%)	13.8	11.2	10.1	11.9	14.3
Div Payout Ratio (%)	40.0	76.3	62.7	51.6	39.8
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	2021A	2022F	2023F
Net Fixed Assets	582	695	773	464	155
Invt in Associates & JVs	207	681	722	722	722
Other LT Assets	2,529	3,094	3,602	3,532	3,463
Cash & ST Invt	2,919	5,701	4,611	4,787	5,914
Inventory	338	346	434	542	671
Debtors	1,841	1,990	3,055	3,921	5,109
Other Current Assets	106	572	1,179	1,179	1,179
<b>Total Assets</b>	<b>8,521</b>	<b>13,079</b>	<b>14,375</b>	<b>15,147</b>	<b>17,213</b>
ST Debt	47	6	5	5	5
Creditors	2,627	2,963	3,706	3,927	5,119
Other Current Liab	1,476	1,716	2,077	2,077	2,077
LT Debt	436	140	147	147	147
Other LT Liabilities	982	1,140	1,068	1,068	1,068
Shareholder's Equity	2,753	6,821	7,019	7,517	8,320
Minority Interests	201	291	351	405	475
<b>Total Cap. &amp; Liab.</b>	<b>8,521</b>	<b>13,079</b>	<b>14,375</b>	<b>15,147</b>	<b>17,213</b>
Non-Cash Wkg. Capital	(1,817)	(1,772)	(1,116)	(362)	(237)
Net Cash/(Debt)	2,436	5,555	4,458	4,635	5,761
Debtors Turn (avg days)	64.7	69.2	73.3	81.2	84.9
Creditors Turn (avg days)	121.3	129.2	123.5	112.6	107.5
Inventory Turn (avg days)	16.9	15.8	14.4	14.4	14.4
Asset Turnover (x)	1.2	0.9	0.9	1.1	1.2
Current Ratio (x)	1.3	1.8	1.6	1.7	1.8
Quick Ratio (x)	1.1	1.6	1.3	1.4	1.5
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	0.0	0.0	0.0
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	643	1,003	1,191	1,441	1,869
Dep. & Amort.	238	285	378	378	378
Tax Paid	(151)	(221)	(301)	(358)	(465)
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	(1,370)	(754)	(125)
Other Operating CF	42	(953)	(26)	(17)	(26)
<b>Net Operating CF</b>	<b>919</b>	<b>1,316</b>	<b>(127)</b>	<b>690</b>	<b>1,631</b>
Capital Exp.(net)	(232)	(344)	0	0	0
Other Invt.(net)	(105)	(596)	0	0	0
Invt in Assoc. & JV	(248)	(313)	0	0	0
Div from Assoc & JV	3	2	0	0	0
Other Investing CF	(19)	(1,013)	80	73	82
<b>Net Investing CF</b>	<b>(602)</b>	<b>(2,264)</b>	<b>80</b>	<b>73</b>	<b>82</b>
Div Paid	(178)	(220)	(531)	(531)	(531)
Chg in Gross Debt	338	(340)	(146)	0	0
Capital Issues	0	3,648	0	0	0
Other Financing CF	2	122	594	(55)	(55)
<b>Net Financing CF</b>	<b>161</b>	<b>3,210</b>	<b>(83)</b>	<b>(586)</b>	<b>(586)</b>
Currency Adjustments	(9)	(233)	0	0	0
Chg in Cash	470	2,029	(131)	176	1,126
Opg CFPS (RMB)	0.29	0.05	0.38	0.44	0.54
Free CFPS (RMB)	0.25	0.32	(0.04)	0.21	0.50

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
2:	11-Feb-22	HK\$8.91	HK\$7.82	Hold

Source: DBS HK

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*Dexter Chun*

## Greentown Service Group

DBS HK recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**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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Sources for all charts and tables are DBS HK unless otherwise specified.

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