

China Property Management Sector

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DBS Group Research . Equity

7 Feb 2024

Dividend in focus

- **Dividend is now the name of the game due to fading interest on M&As and expectation reset on VAS businesses**
- **Strong competition in third party contracts, weak VAS developments and further receivable impairments may weigh on earnings outlook**
- **Price correlation with the China property sector to stay before the dust in the latter settles**
- **Price volatility amid weak sentiment creates attractive entry points for quality names: [CR MixC \(1209 HK\)](#) for its resilient growth outlook and room for potential payout lift**

Eyes on dividend policy. Fading interests on M&As, continued build-up in balance sheet cash levels and sectorial earnings growth slowdown have diverted investor's interest away from capital gains towards property managers' dividend returns. Given their cash-rich positions and current difficulty to secure synergetic and value-accretive deals, we believe another lift in dividend payout could be a possible outcome. This, inclusive of SASAC's latest intention to incorporate "market value management" as part of SOEs' KPI systems, we take the view that SOE property managers do have the incentive to enhance shareholder return via the dividend route. CR Mixc (1209 HK) and Poly Property Service (6049 HK) would be among key names to watch for in our view.

A weak result season en-route. Property managers may be reporting another set of weak financial results in Mar-24. On one hand, revenue and profit may remained pressured upon another period of tough operating environment both in the property management (in form of intensifying competition and property sector downturn) and value-added services segment (weak macro-backdrop and subdued consumption appetite). On another, more potential impairments on account receivables (esp. from related parties with a distressed background) and goodwill (arose from previous M&As) may also weigh on near-term earnings. While SOE names we track are still expected to post resilient earnings growth at >20%, POEs in general may pose >10% y-o-y declines during result announcements.

Price volatility creates decent entry point. With the concerns over developer's liquidity and the dust in the property market have yet to settle, share price correlation between the two sectors is likely to stay. With the prevailing weak near-term investor sentiment on spillover concerns from the property sector, we expect the sector to trade sideways or even potentially skew towards the negative side before a major policy shift. Share price volatility is expected to stay high alongside relatively thin trading volume and short-term centric trades. We recommend to watch for quality SOE managers with room for lifting dividend payout. **CR Mixc (1209 HK)** remains our sector top pick for its solid growth outlook and positioning in premium commercial market.

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Recommendation & valuation

| Company Name | Price HK\$ | Target Price HK\$ | Rec | Mkt Cap US\$m | PE 24F x |
|---|---------------|-------------------------|-----|---------------------|----------------|
| CR Mixc Lifestyle (1209 HK) | 22.45 | 47.00 | BUY | 6,554 | 16.7 |

Source: Thomson Reuters, DBS Bank (Hong Kong) Limited ("DBS HK")
Closing price as of 6 Feb 2024

FY23 results preview

Weak results season ahead. Revenue and earnings growth for property managers – especially POE names – may remain suppressed in FY23F. On one hand, growth in property management businesses may be weighed down by intensifying competition in third party residential and non-residential PM services. Value added services (VAS) are also under pressure amid the ongoing property downcycle, macro uncertainty and reduced household consumption appetites. Government-related services (such as city services) are also facing headwinds with local governments eyeing tighter budgets amid weakened fiscal revenue.

Meanwhile, receivable collections are expected to remain slow upon 1) further deterioration in related developers' weakened cashflow outlook; and 2) increased contribution from public facility projects that are typically with longer fee collection days. These may lead to higher receivable impairments. Potentially weaker performance of previously conducted M&As may also lead to goodwill impairments. Property managers with a distressed/ liquidity-challenged related developer, more engaged/proactive in VAS previously and in M&As – primarily POEs such as CGS (6098 HK) and A-Living (3319 HK) – may face greater earnings pressure as a result.

Outstanding related party receivables as at Jun-23

| Company | Ticker | Nature of related developer | Outstanding related receivables (Rmb m) | | | % of related receivables | | |
|-----------------------|---------|-----------------------------|---|--------|------------|--------------------------|------------|----------------|
| | | | Dec-22 | Jun-23 | H-o-H | Dec-22 | Jun-23 | H-o-H |
| COPH | 2669 HK | SOE | 761 | 855 | 12% | 25% | 22% | -2.6ppt |
| Poly Ppty Services | 6049 HK | SOE | 620 | 682 | 10% | 26% | 23% | -3.3ppt |
| CR Mixc | 1209 HK | SOE | 718 | 766 | 7% | 46% | 38% | -7.7ppt |
| Yuexiu Services | 6626 HK | SOE | 466 | 553 | 19% | 73% | 67% | -6.5ppt |
| GTS | 2869 HK | SOE | 100 | 87 | -13% | 3% | 2% | -0.9ppt |
| A-Living | 3319 HK | Surviving POE | 3,424 | 3,473 | 1% | 49% | 46% | -3.8ppt |
| S-Enjoy | 1755 HK | Surviving POE | 564 | 726 | 29% | 39% | 36% | -3.2ppt |
| CGS | 6098 HK | Distressed POE | 1,731 | 2,301 | 33% | 11% | 13% | 1.7ppt |
| CCNL | 9983 HK | Distressed POE | 1,692 | 1,734 | 2% | 64% | 61% | -3.2ppt |
| Sino-Ocean Service | 6677 HK | Distressed POE | 546 | 674 | 23% | 42% | 41% | -0.9ppt |
| KWG Living | 3913 HK | Distressed POE | 1,387 | 1,555 | 12% | 68% | 67% | -0.5ppt |
| Times Neighb. | 9928 HK | Distressed POE | 669 | 599 | -10% | 84% | 74% | -9.3ppt |
| Sunac Services | 1516 HK | Distressed POE | 3,368 | 3,237 | -4% | 67% | 57% | -9.5ppt |
| Jinke Services | 9666 HK | Distressed POE | 597 | 639 | 7% | 24% | 22% | -1.8ppt |
| Ever Sunshine | 1995 HK | Distressed POE | 787 | 1,013 | 29% | 39% | 46% | 6.7ppt |
| Powerlong CM | 9909 HK | Distressed POE | 60 | 129 | 115% | 22% | 35% | 13.6ppt |
| Average | | | | | 17% | 43% | 41% | -2.0ppt |
| SOE | | | | | 7% | 35% | 30% | -4.2ppt |
| Surviving POE | | | | | 15% | 44% | 41% | -3.5ppt |
| Distressed POE | | | | | 23% | 47% | 46% | -0.4ppt |

Source: Companies, DBS HK

Property managers' revenue and gross profit contribution by segment

| Company | Ticker | Nature of related developer | 1H23 | | | | | | | |
|-----------------------|---------|-----------------------------|----------------------|------------|------------|------------|---------------------------|------------|------------|------------|
| | | | Revenue contribution | | | | Gross profit contribution | | | |
| | | | Ppty mgmt | CVAS | NPVAS | Others | Ppty mgmt | CVAS | NPVAS | Others |
| COPH | 2669 HK | SOE | 72% | 10% | 17% | 1% | 66% | 18% | 14% | 2% |
| Poly Ppty Services | 6049 HK | SOE | 67% | 18% | 15% | 0% | 54% | 32% | 14% | 0% |
| CR Mixc | 1209 HK | SOE | 51% | 9% | 6% | 34% | 24% | 9% | 7% | 60% |
| Yuexiu Services | 6626 HK | SOE | 30% | 26% | 23% | 20% | 17% | 33% | 27% | 22% |
| GTS | 2869 HK | SOE | 64% | 20% | 13% | 3% | 47% | 26% | 21% | 5% |
| A-Living | 3319 HK | Surviving POE | 68% | 15% | 8% | 9% | 63% | 20% | 7% | 9% |
| S-Enjoy | 1755 HK | Surviving POE | 63% | 31% | 6% | 0% | 58% | 36% | 6% | 0% |
| CGS | 6098 HK | Distressed POE | 68% | 9% | 5% | 18% | 61% | 18% | 2% | 18% |
| CCNL | 9983 HK | Distressed POE | 70% | 22% | 8% | 0% | 64% | 0% | 0% | 36% |
| Sino-Ocean Service | 6677 HK | Distressed POE | 70% | 17% | 13% | 0% | 64% | 12% | 23% | 0% |
| Times Neighb. | 9928 HK | Distressed POE | 78% | 11% | 4% | 7% | 76% | 21% | 1% | 2% |
| Sunac Services | 1516 HK | Distressed POE | 86% | 7% | 6% | 1% | 86% | 10% | 4% | 0% |
| Jinke Services | 9666 HK | Distressed POE | 79% | 6% | 3% | 11% | 72% | 16% | 3% | 9% |
| Ever Sunshine | 1995 HK | Distressed POE | 69% | 13% | 12% | 7% | 64% | 28% | 6% | 3% |
| Powerlong CM | 9909 HK | Distressed POE | 13% | 4% | 0% | 82% | 14% | 0% | 0% | 86% |
| Average | | | 63% | 15% | 9% | 13% | 55% | 19% | 9% | 17% |
| SOE | | | 57% | 17% | 15% | 12% | 42% | 24% | 17% | 18% |
| Surviving POE | | | 66% | 23% | 7% | 4% | 61% | 28% | 6% | 4% |
| Distressed POE | | | 67% | 11% | 6% | 16% | 63% | 13% | 5% | 19% |

Note: Commercial operations included in others

Source: Companies, DBS HK

Recent earnings revision on DBS coverage

| Names | Ticker | 2023F earnings | | | 2024F earnings | | | 2025F earnings | | | Earnings revision | | |
|----------------|---------|----------------|-------|------------|----------------|-------|------------|----------------|-------|-------------|-------------------|-------------|-------------|
| | | DBSe | Mkt | Diff | DBSe | Mkt | Diff | DBSe | Mkt | Diff | 2023F | 2024F | 2025F |
| CGS | 6098 HK | 3,660 | 3,596 | 2% | 3,858 | 4,205 | -8% | 3,969 | 4,547 | -13% | -22% | -22% | -23% |
| A-Living | 3319 HK | 1,517 | 1,664 | -9% | 1,569 | 1,718 | -9% | 1,607 | 1,875 | -14% | -19% | -19% | -20% |
| Average | | | | -4% | | | -8% | | | -14% | -21% | -21% | -22% |

Source: Bloomberg, DBS HK

Resetting expectations on community VAS businesses. Aside from pressure stemming from weak consumption appetites, growth expectations in the community VAS space have fallen short of previous expectations as most property managers have hit a plateau after a period of rapid growth in the business segment arising from a low base and service penetration rate. Property managers have started to revamp their community VAS strategies and are moving more towards an asset-light approach to reduce operational risks (e.g. reduction in resource devotion towards early education and elder care services). More focus has also

been put on lower hanging fruits such as home-living (household cleaning, furnishing services), commodity retail and catering services (for non-residential projects). We expect near-term growth outlook in the segment may remain moderate before the finetuning process completes.

China Property Management Sector

Intensifying competition in property management.

Competition in the 3rd party space (both residential and non-residential services) has remained fierce led by a significant slowdown in the physical market. This, coupled with property managers' exiting their loss-making projects, will likely translate into another period of relatively subdued incremental GFA growth in 2H23. Profitability of newly secured projects may also be suppressed amid strong competition as well as higher contribution of lower margined non-residential projects (such as public facilities, etc).

Property managers' incremental contracted GFA by type

| Company | Ticker | Incremental contracted GFA | | | |
|--------------------|---------|----------------------------|------------|------------|------------|
| | | FY22 | | 1H23 | |
| | | Resi | Non-resi | Resi | Non-resi |
| COPH | 2669 HK | 46% | 54% | 39% | 61% |
| Poly Ppty Services | 6049 HK | 12% | 88% | 16% | 84% |
| CR Mixc | 1209 HK | 77% | 23% | 13% | 87% |
| Yuexiu Services | 6626 HK | 61% | 39% | 20% | 80% |
| A-Living | 3319 HK | 40% | 60% | 31% | 69% |
| CGS | 6098 HK | 35% | 65% | 34% | 66% |
| Jinke Services | 9666 HK | 44% | 56% | 53% | 47% |
| Average | | 45% | 55% | 29% | 71% |

Notes: Others refer to sport centre, hospital, schools etc; Poly Property Service's figures are reported as contracted value for third party project
Source: Companies, DBS HK

Fading interest on M&As. Despite being cash rich, property managers' interest over M&As have faded alongside 1) their discounted valuations (currently at c.5.5x FY24F PE) vs primary market candidates (high single digit to low teens PE); and 2) elevated concerns on one's ability to ensure the creation of synergies as well as quality of the target company. Value-accretive opportunities are increasingly scarce, while investors are also more sceptical upon several property managers having to make sizeable goodwill impairments over the past few financial periods post acquisitions.

Dividends in the spotlight. With the weak near-term growth outlook and subdued investor interest in the secondary market, existing property management investors have shifted their focus from capital gains to dividend returns. Most property managers we spoke to – with their asset light business models and cash rich positions – are also capable and are generally inclined to act in accordance with investor preferences. We therefore expect to see another round of increases in dividend payouts for the upcoming result season.

Within the sector, we believe SOE managers are well-poised and are incentivised to lift their payout ratios in response to the recent calling by SASAC to include “manage market value and investor return” as part of their KPI system. CR MixC (1209 HK) and Poly Services (6049 HK) would be among the SOE names to keep an eye on. POE names are also incentivised to follow the path, though they could be partially limited by their relatively tighter cashflows.

Property manager's expected dividend payout and current dividend yields

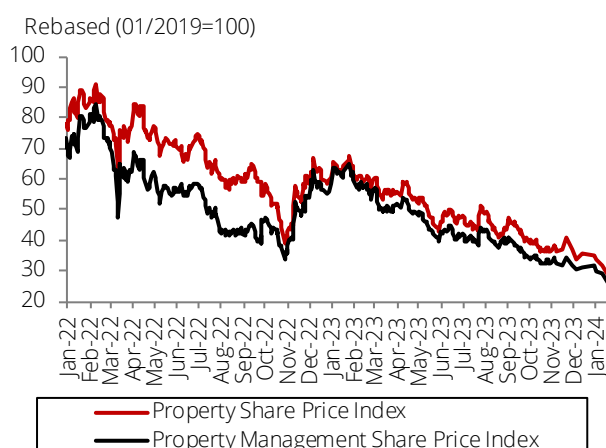
| Company | Ticker | Dividend payout | | Dividend yield | |
|--------------------|---------|-----------------|-------------------|----------------|-------------|
| | | FY22 | FY23F | FY23F | FY24F |
| Poly Ppty Services | 6049 HK | 25% | Intends to lift ↑ | 2.5% | 3.1% |
| CR Mixc | 1209 HK | 45% | Intends to lift ↑ | 2.7% | 3.5% |
| Yuexiu Services | 6626 HK | 35% | Intends to lift ↑ | 5.8% | 6.8% |
| GTS | 2869 HK | 46% | Intends to lift ↑ | 4.6% | 5.4% |
| S-Enjoy | 1755 HK | 32% | Intends to lift ↑ | 6.5% | 7.4% |
| Sunac Services | 1516 HK | 55% | Flat → | 4.8% | 4.8% |
| COPH | 2669 HK | 31% | Flat → | 2.9% | 3.6% |
| CGS | 6098 HK | 25% | n.a | 5.4% | 5.5% |
| A-Living | 3319 HK | 0% | n.a | 0.9% | 0.0% |
| Average | | | | 4.0% | 4.5% |

Note: excluded special dividend

Source: Bloomberg Finance L.P., DBS HK

Price correlation with developers to stay. As the physical market has yet to show signs of stabilization and residential sales are likely to post another year of decline in 2024, developers' operating cashflows are expected to remain suppressed, as the China property sector's de-risking progress continues. The strong share price correlation with their related developer may persist in the near term.

Share price correlation between developers and PM



Source: DBS HK

Price volatility create entry point for quality names.

Considering the prevailing weak near-term investor sentiment on spillover concerns from the property sector, we expect the sector to trade sideways or even potentially skew towards the negative side before a major policy shift. Share price volatility is expected to stay high alongside relatively thin trading volume and short-term centric trades. We continue to like **CR MixC (1209 HK)** among SOEs for its continually resilient growth outlook, premised on its parent company's solid development pipeline and its leading positioning in China's premium commercial market.

Valuation comparison

| Company Name | Code | 6-Feb Target Price | | Rec | Mkt Cap US\$m | 3-mth Mkt avg. daily T/O | | EPS growth | | PE | | Yield | | ROE | | FY22A Net gearing % |
|----------------------------|---------|--------------------|-------|------|---------------|--------------------------|-----|--------------|-------------|------------|------------|------------|------------|-------------|-------------|---------------------|
| | | HK\$ | HK\$ | | | US\$m | Yr | 23F % | 24F % | 23F x | 24F x | 23F % | 24F % | 23F % | 24F % | |
| Large Cap | | | | | | | | | | | | | | | | |
| Country Garden Services*^ | 6098 HK | 5.59 | 5.50 | HOLD | 2,390 | 23.3 | Dec | (27.1) | 5.4 | 4.7 | 4.5 | 5.3 | 5.6 | 9.5 | 9.3 | Cash |
| A-Living Services 'H'* | 3319 HK | 3.18 | 3.30 | HOLD | 578 | 4.2 | Dec | (17.5) | 3.4 | 2.7 | 2.6 | 0.9 | 0.0 | 11.5 | 10.6 | Cash |
| Poly Property Dev 'H' | 6049 HK | 27.1 | n.a. | NR | 1,918 | 4.0 | Dec | 15.3 | 19.0 | 10.0 | 8.4 | 2.6 | 3.0 | 16.2 | 17.1 | Cash |
| CR Mixc Lifestyle* | 1209 HK | 22.45 | 47.00 | BUY | 6,554 | 10.8 | Dec | 26.8 | 27.2 | 16.7 | 13.1 | 2.7 | 3.5 | 19.1 | 21.9 | Cash |
| Greentown Ser.Gp.* | 2869 HK | 2.61 | 3.80 | HOLD | 1,066 | 1.8 | Dec | 11.1 | 21.3 | 11.1 | 9.1 | 4.5 | 5.5 | 9.6 | 11.1 | Cash |
| Average | | | | | | | | 1.7 | 15.3 | 9.1 | 7.6 | 3.2 | 3.5 | 13.2 | 14.0 | |
| Small- and mid-caps | | | | | | | | | | | | | | | | |
| Central China New Life | 9983 HK | 1.36 | n.a. | NR | 226 | 0.1 | Dec | (105.9) | n.a. | n.a. | 4.3 | 16.0 | 16.5 | 10.1 | 15.6 | Cash |
| China Overseas Property | 2669 HK | 5.46 | n.a. | NR | 2,295 | 4.6 | Dec | 30.2 | 26.4 | 10.8 | 8.6 | 2.8 | 3.6 | 37.6 | 35.7 | Cash |
| S-Enjoy Service Group | 1755 HK | 2.70 | n.a. | NR | 301 | 0.6 | Dec | 23.4 | 11.1 | 3.8 | 3.4 | 7.4 | 8.0 | 18.9 | 18.5 | Cash |
| Binjiang Service Group | 3316 HK | 15.44 | n.a. | NR | 546 | 0.2 | Dec | 19.0 | 28.2 | 7.5 | 5.8 | 6.8 | 6.8 | 36.0 | 37.1 | Cash |
| Powerlong Coml.Man.Hdg. | 9909 HK | 2.72 | n.a. | NR | 224 | 0.1 | Dec | 10.7 | 18.4 | 3.0 | 2.5 | 11.2 | 13.0 | 18.9 | 19.7 | Cash |
| KWG Living | 3913 HK | 0.40 | n.a. | NR | 102 | 0.2 | Dec | n.a. | 14.3 | 5.2 | 4.5 | 0.0 | n.a. | 4.3 | 4.3 | Cash |
| Excellence Commercial P&F | 6989 HK | 1.60 | n.a. | NR | 250 | 0.2 | Dec | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | Cash |
| Sino-Ocean Service Holding | 6677 HK | 0.48 | n.a. | NR | 72 | 0.1 | Dec | 124.7 | 39.2 | 2.9 | 2.1 | 0.0 | 0.0 | 8.2 | 10.6 | Cash |
| Average | | | | | | | | (4.5) | 22.9 | 5.5 | 4.5 | 6.3 | 8.0 | 19.2 | 20.2 | |

^Excludes outliers

Source: Thomson Reuters, *DBS HK

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Completed Date: 7 Feb 2024 16:20:45 (HKT)

Dissemination Date: 7 Feb 2024 18:51:32 (HKT)

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