

Company Report

Greentown Service Group (2869 HK)

Industry leader with outperforming growth

■ Greentown Service Group, listed in 2016, is China's 2nd largest property management services provider in 2017. We expect co. continue to deliver high earning growth of 31% CAGR in 16-19E

■ Co. currently manages 118mn sqm GFA, another 135mn sqm is on the pipeline which will be converted into revenue-bearing area over next 3-4 years. Value-added services (VAS) is another growth driver, whose revenue is set to grow at a 52% CAGR in 16-19E

■ With high earnings visibility and higher-than-peers' earnings growth, we initiate coverage with BUY with a TP HK\$5.66

2nd largest in China; high visibility from core business

Greentown Service's revenue from prop. mgt. services is set to grow at a 29% CAGR in 2016-19E. Visibility is high as co. had 118mn sqm managed GFA as of Jun17, and another 135mn sqm of reserved GFA which will be converted into revenue-bearing area in next 3-4 years. Profitability of prop. mgt. service revenue will increase at an even faster pace as GPM will improve from 6% in 2013, to 11%/14% in 2016/19E as portion from higher-fees non-residential GFA will increase.

VAS as new growth driver; 16-19E revenue CAGR: 52%

Co. is bearing fruits from the provision of value-added services(VAS) (e.g. community products) with VAS revenue grown at +60% CAGR in 2013-16. As co. continues to expand into cultural & education and prop. asset mgt. services, we expect its VAS revenue to grow at another 52% CAGR for next 3 years, and VAS as % of total revenue to increase from 13% in 2016 to 21% in 2019E. High VAS GPM (est. 36%-34% for 17E-19E) is also expected to expand the overall margin.

Initiate with BUY; expect re-rating will continue

We initiate coverage on Greentown Service with a BUY rating. Our target price of HK\$5.66 is set at 26x P/E on FY18E EPS, which is 2 SD above historical average P/E of 19x and peers' avg P/E of 16x, justified by 1) co's improved earnings visibility on an increased reserved GFA pipeline and VAS segment as new revenue growth driver; and 2) a higher-than-peers' earning growth (29% vs peers' 24% & 18%). Stock price has +85% YTD, but we believe this is just the beginning of stock re-rating cycle as visible managed GFA growth, robust VAS driver & high earnings growth should support further stock re-rating.

Financials

RMB mn	2015	2016	2017E	2018E	2019E
Revenue	2,919	3,722	4,903	6,276	8,072
Growth (%)	32.4%	27.5%	31.7%	28.0%	28.6%
Adjusted net profit	198	286	385	492	640
Growth (%)	32.8%	44.3%	34.7%	27.8%	30.1%
Adj. EPS (RMB)	0.10	0.12	0.14	0.18	0.24
CMS/ consensus	-	-	100.6%	96.6%	95.0%
Adj. P/E (x)	39.3	32.0	27.9	21.8	16.8
Dividend yield (%)	-	1.0	1.2	1.5	1.9
Net gearing (%)	(565.4)	(133.6)	(132.0)	(145.0)	(158.8)

Sources: Company data, CMS (HK) estimates

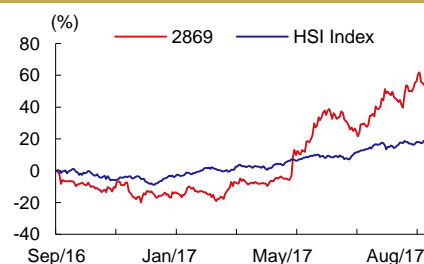
Harry WONG Jackson HUI
+852 3189 6358 +852 3189 6179
harrywong@cmschina.com.hk jacksonhui@cmschina.com.hk

Initiation

BUY

Price	HK\$4.76
12-month Target Price (Potential up/downside)	HK\$5.66 (+19%)

Price Performance



Source: Bigdata

%	1m	6m	12m
2869 HK	2.1	65.1	54.9
HSI	3.7	15.4	19.1

Sector: Property

Hang Seng Index	27491
HSCEI	10909

Key Data

52-week range (HK\$)	2.38-5.08
Market cap (HK\$ mn)	13250
Avg. daily volume (mn)	5.99
BVPS (HK\$)	0.64

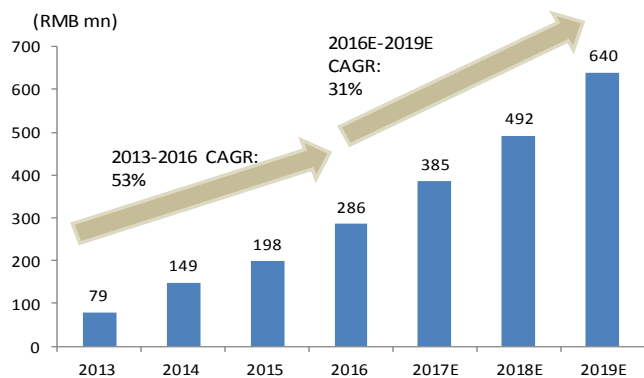
Shareholding Structure

Mr. Shou Bainian	14.7%
Ms. Xia Yibo	14.3%
Mr. SongWeiping	7.7%
Ms. Li Hairong	21.3%
No. of shares outstanding (mn)	2778
Free float	42%

Sources: Bloomberg, Company data

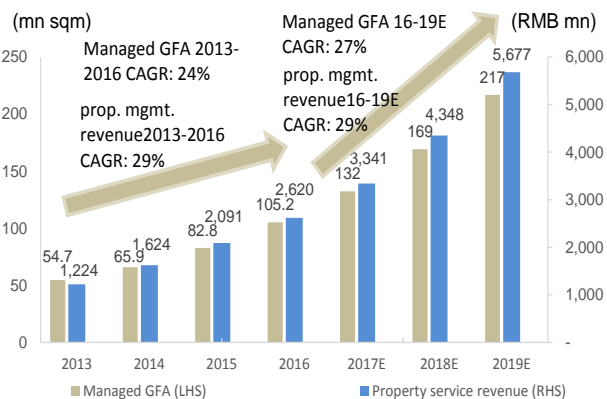
Focus charts

Figure 1: 31% earnings CAGR in 16-19E (from a higher base)...



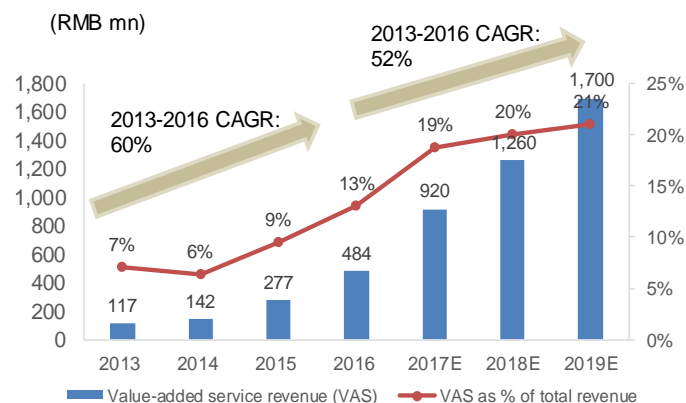
Sources: Company data, CMS(HK) estimates

Figure 2: ...driven by 27% 16-19E CAGR in managed GFA & prop management revenue...



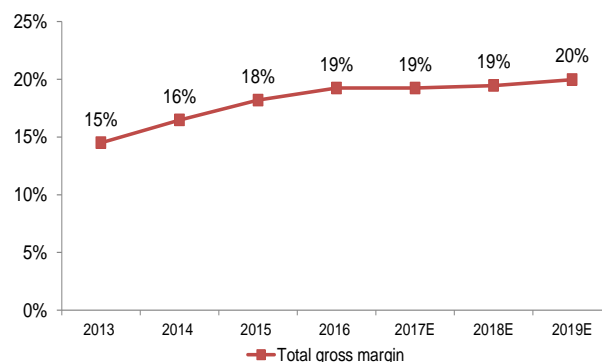
Sources: Bloomberg, CMS(HK) estimates

Figure 3: ...and growing contributions from value-added services...



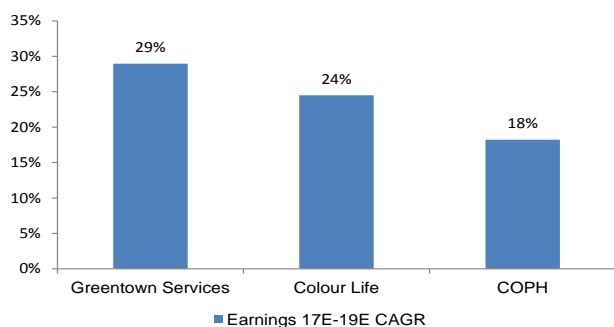
Sources: Company data, CMS(HK) estimates

Figure 4: ...with an improving GP margin



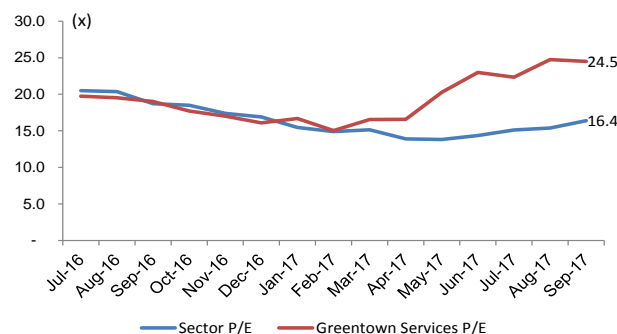
Sources: CMS(HK) estimates

Figure 5: Greentown Service's earnings CAGR vs peers, 2017E-2019E



*Colour Life (1778.HK, N-R) and COPH (2669.HK, N-R) data are from Bloomberg Consensus Sources: Bloomberg, CMS(HK) estimates

Figure 6: Re-rating is set to continue



*industry peers' P/E includes Colour Life (1778.HK, N-R) and COPH (2669.HK, N-R) Sources: Company data, Bloomberg, CMS (HK)

Industry overview

Market size to grow +19% in 4 years

The core property management services in China involve provision of security, cleaning, gardening and repair & maintenance services.

There were 34.4bn sqm completed property inventory as at the end of 2016 according to our estimates, based on living space per capita in China in 1999 plus total residential GFA completed since 2000. Among the 34.4bn sqm property inventory, 18.5bn sqm (54% of the total inventory) have proper property management services according to China Index Academy statistics (excluding those governmental housings, vacant housings and properties without management).

We expect the total GFA with property management to grow +19% in next 4 years from 18.5bn sqm to 22.0bn sqm in 2020E (see figure 7), based on the following assumptions:

- 2017E: residential GFA completion to grow +3% YoY (YTD 8M17 +2.6% YoY)
- 2018E-2019E: residential GFA completion to accelerate to +8%/ +8% YoY, factoring in 1) the pick-up in construction new start in 2013-2014, and 2) the increase in delivery of fitted units from bare-shell previously (the time period between new construction starts and completion for bare-shell units is generally 3-3.5 years, and 3.5-4.5 years for fitted units)
- 2020E: residential GFA completion to slow down to flat YoY, factoring in the slowed construction activities in 2014-15

Figure 7: New start GFA & completed GFA & managed GFA forecast

	New start GFA (mn sqm)	YoY	Completed GFA (mn sqm)	YoY	Completed residential GFA with prop mgt (mn sqm)	YoY
1999	180		162			
2000	233	29%	189	17%		
2001	293	26%	225	19%		
2002	342	17%	266	18%		
2003	437	28%	322	21%		
2004	479	10%	347	8%		
2005	540	13%	400	15%		
2006	636	18%	432	8%		
2007	781	23%	478	10%		
2008	799	2%	477	0%		
2009	925	16%	596	25%	11,700	
2010	1,295	40%	612	3%	12,400	6.0%
2011	1,460	13%	717	17%	13,400	8.1%
2012	1,307	-11%	790	10%	14,400	7.5%
2013	1,458	12%	787	0%	15,400	6.9%
2014	1,249	-14%	809	3%	16,400	6.5%
2015	1,067	-15%	738	-9%	17,500	6.7%
2016	1,159	9%	772	5%	18,500	5.7%
2017E			795	3%	19,295	4.3%
2018E			859	8%	20,154	4.4%
2019E			927	8%	21,081	4.6%
2020E			927	0%	22,008	4.4%

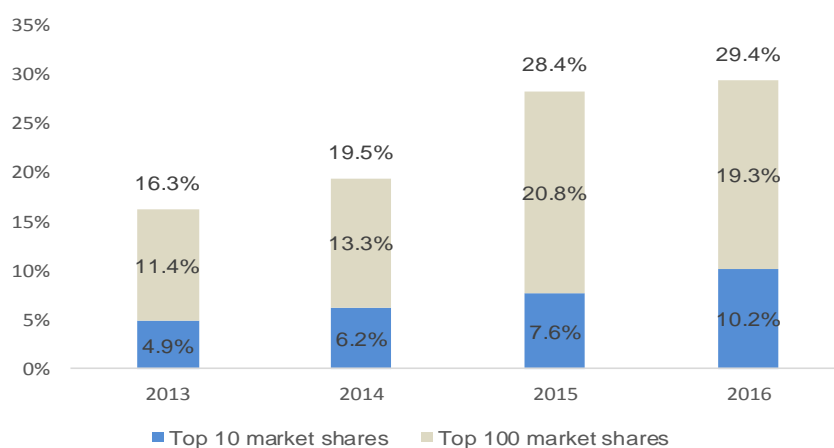
Source: Wind, China Index Academy, CMS (HK) estimates

Key industry players

According to China Index Academy, there are over 1,000 property management companies in China. But the market is undergoing consolidation, market share of top 100 property management companies has increased from 16% in 2013 to 29.4% in 2016 (see figure 8).

The operating scale of top 10 players are growing even more quickly, their market shares have increased from 4.9% in 2013 to 10.2% in 2016. Greentown Service, Colour Life Services (1778 HK, N-R), and China Overseas Property Holdings (2669 HK, N-R) are three Hong Kong-listed property management services companies and all rank within Top 10.

Figure 8: Top 10 and Top 100 market shares from 2013-2016



Sources: China Index Academy, CMS (HK)

Figure 9: Top 10 Property mgmt. service companies ranked in order of managed GFA (2016)

Name	Managed GFA (mn sqm) in 2016
Colour Life Services Group Co., Ltd. (彩生活服务集团有限公司) (1778.HK)	395mn sqm
Vanke Property Development Co., Ltd. (万科物业发展有限公司)	360mn sqm
Guangdong Country Garden Property Services Co.,Ltd. (广东碧桂园物业服务股份有限公司)	200mn sqm
Jinke Property Group Co., Limited (金科物业服务集团有限公司)	160mn sqm
ChangCheng Property Group Co., Ltd. (长城物业集团股份有限公司)	150mn sqm
Greentown Service Co. Ltd. (绿城物业服务集团有限公司) (2869.HK)	105mn sqm
Poly Property Development Co., Ltd. (保利物业发展股份有限公司) (871893.CH)	100mn sqm
China Overseas Property Holdings Ltd. (中海物业集团有限公司) (2669.HK)	100mn sqm
Gemdale Property Management Co.,Ltd. (金地物业管理集团公司)	80mn sqm
Longfor Property Services Group Co.,Ltd. (龙湖物业服务集团有限公司)	41mn sqm

Source: Company data, China Index Academy, CMS (HK)

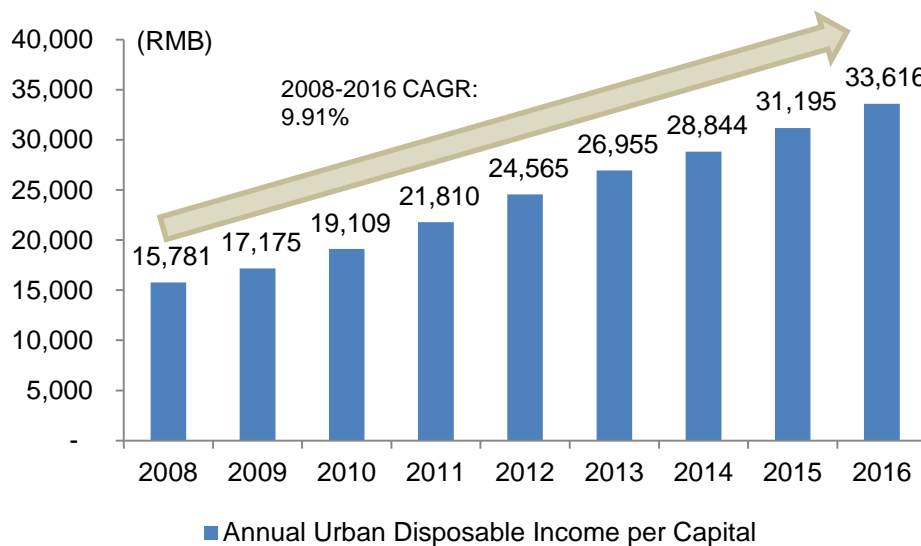
Most of the top 10 players are the property management arms of major property developers including China Vanke (2202 HK, BUY) and Longfor (960 HK, BUY) with diversified geographical coverage. These players have access to multiple funding channels with wide geographical coverage, together with on-going M&As and strategic co-operations, we expect the scale of top-10 players to grow even faster than the growth of completed residential property inventory (4.4% CAGR in 16-20E) and their market shares to increase from 10.2% in 2016 to 15% in 2020E.

Industry driven by urbanization and Increasing Disposable Income

We expect the increasing urbanization in China to increase the number and size of cities, resulting in an increased demand for residential and other real estate projects, together with growing demand for property management services to manage the increased stock of properties. With reference to the National New Urbanization Plan (2014 - 2020) (国家新型城镇化规划(2014 - 2020)), urbanization rate in China is estimated to increase to 60% by 2020.

Additionally, we reckon the urbanization is set to drive the disposable income and hence the investment and consumption in city. According to the National Bureau of Statistics of the PRC, annual disposable income per urban capita grew from RMB15,781 in 2008 to RMB33,616 in 2016 with CAGR of 9.91%. We therefore expect Chinese citizens to be more willing to pay a premium for some high-quality products and services. The property management companies focusing on provision of high-quality property management services will hence be the major beneficiaries in the future.

Figure 10: Annual Urban Disposable Income per Capital from 2008 to 2016



Sources: NBS, CMS (HK)

Favorable Government Policies; enhance the pricing flexibility

We also see that China property management companies will be favourably underpinned by a series of governmental policies as followed,

- 1) The Twelfth Five-Year Plan for the Development of Service Industries (服务业发展“十二五”规划), issued by the PRC State Council in 2012 – which focused on the improvement of the pricing regime for the property management industry also encouraged property management companies to widen the scope of services provided;
- 2) Opinions to Facilitate Development of the Modernized Property Management Industry (关于加快发展现代物业服务业的若干意见) issued by the Zhejiang provincial government in 2012 – which promulgated a series of fiscal and financial incentives for property management companies in Zhejiang Province.
- 3) The Circular of NDRC on the Opinions of Relaxing Price Controls in Certain Services (国家发展改革委关于放开部分服务价格的通知) issued by the National Development and Reform Commission of the PRC in 2014 – which required provincial-level price administration authorities to abolish price control and guidance policies on residential properties (excl. affordable housing and preliminary property management agreements). It also granted the property management companies a high flexibility to freely negotiate property management fees with property owners.

Overall, we believe these policies imply that the Chinese government is placing more emphasis on the property management companies, which hence possess higher pricing flexibility to raise the management fees and enhance their profitability.

Company background

A Hangzhou & Yangtze River Delta-focused property management services provider

Greentown Service was established in 1998. The property management services provider is listed on HKEx in 2016 as a spin-off from Greentown Property Group (3900.HK), a Hangzhou-focused property developer in China.

The company currently operates through three main business segments, including:

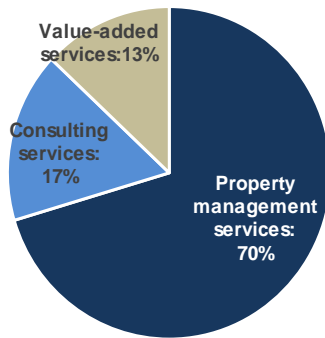
- i) Property management services (70% of FY16's revenue) – providing security, cleaning, repair and maintenance services mainly for high-end residential properties. In FY16, 76% of managed contracted GFA is residential, another 24% is commercial/ non-residential;
- ii) Consulting services (17% of revenue) – providing consulting services for real estate developers regarding site selection, project planning and design; and
- iii) Value-added & community living services (13% of revenue) – value-added services for residents such as property asset management, education and home living services.

Figure 11: Milestones of Greentown Service

Year	Milestone event
1998	Greentown Service established in PRC under the name of Zhejiang Greentown Property Management Company Limited and started providing property management services
2000	Greentown Service started providing consulting services
2003	Greentown Service started expanding its business operations across the PRC, particularly major top-tiered cities in Yangtze River Delta and Bohai Economic Rim
2004	Greentown Service was recognized as a property management company of first class quality
2005	Greentown Service was certified under ISO9000 for the quality of its property management services
2007	Greentown Service started providing community value-added services
2008	Greentown Service was certified under ISO14001 for environmental management
2010	Greentown Service was certified under GB-T28001 for occupational health and safety
2010	Greentown Service was recognized as one of the “Key Enterprises in the Services Industry in Zhejiang Province” by the Zhejiang provincial government
2011	Greentown Service was awarded by China Index Academy the first runner-up in the “2011 Top Hundred China Property Services Enterprises” and obtained same award for four subsequent consecutive years from 2012 to 2015
2014	Greentown Service was awarded the “2014 China Property Services Market Leading Branding Enterprise”
2015	Greentown Service was awarded “China Top Hundred Property Management Company with the Most Satisfied Property Owners #1” and China Top Hundred Property Management in Overall Strength #2” by China Index Academy

Sources: Company data

Figure 12: Revenue breakdown (%) by segments (2016)



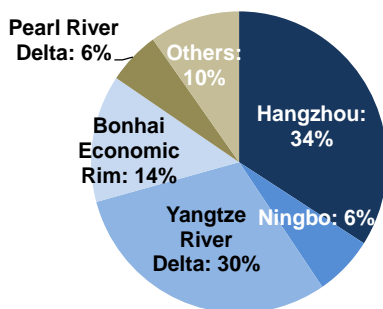
Sources: Company data, CMS (HK)

Delivering growth

Greentown Service has more than doubled its managed GFA in 3.5 years, from 54mn sqm as of Dec13 to 117mn sqm GFA as of Jun17. Greentown Service has 117mn sqm of GFA under management (or 959 communities) as of 30 June 2017, of which 63% came from Hangzhou and Yangtze River Delta Area.

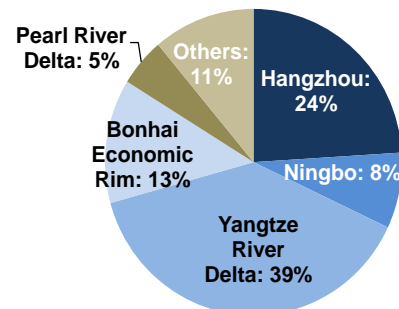
The company has another 134.5mn sqm of reserved GFA (property management services contracts have already been signed, but properties are under construction and yet to be completed), which should turn into GFA under management over the next 3-5 years.

Figure 13: Revenue by geographical breakdown in 1H17



Sources: Company data, CMS (HK)

Figure 14: Managed GFA by geographical breakdown in 1H17

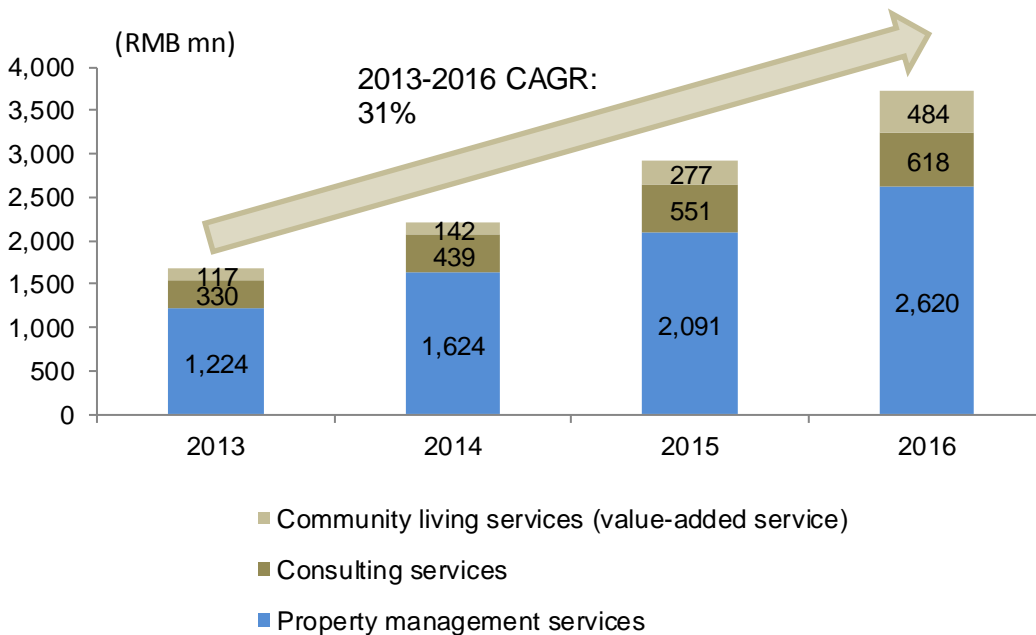


Sources: Company data, CMS (HK)

Greentown Service's revenue has grown 31% CAGR in 2013-2016 from RMB1,671mn in 2013 to RMB3,722mn in 2016, of which property management services has increased 114% in 3 years from RMB1,224mn in 2013 to RMB2,620mn in 2016 (see figure 15).

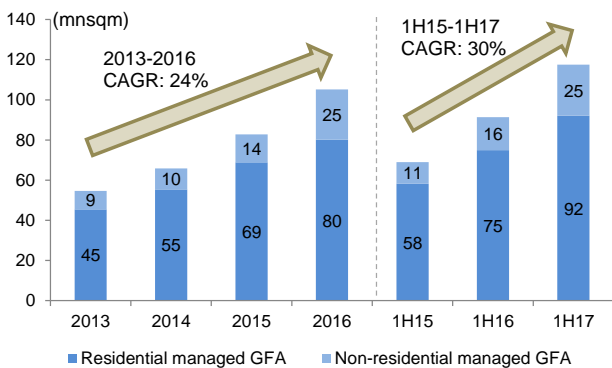
Such growth in property management services revenue is driven by the increase in managed GFA from 54mn sqm in 2013 to 105mn sqm in 2016 (see figure 16), thanks to 1) support from parent company, 2) strategic co-operation as well as M&A, and 3) open bidding.

Figure 15: Revenue breakdown (RMB mn) from 2013-2016



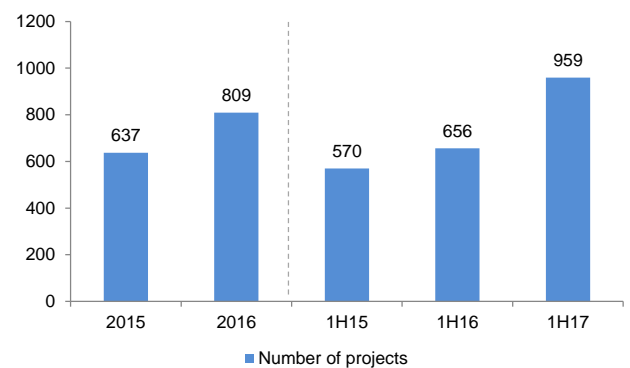
Sources: Company data, CMS (HK)

Figure 16: Total managed GFA CAGR +24%/30% for 13-16/1H15-1H17



Sources: Company data, CMS (HK)

Figure 17: Number of projects from 2015-1H17



Sources: Company data, CMS (HK)

- 1) Support from parent company – Parent company Greentown China has been providing full support to Greentown Service, of which 27% of Greentown Service’s contracted GFA under management in 2013 came from Greentown China.

The percentage came down to 22% in 2015 as company increased strategic co-operations and M&As with other property management companies and started open biddings.

Figure 18: Contracted GFA under management breakdown by property developers

	2013	2014	2015
Greentown China	26.6%	25.3%	22%
Other property	73.4%	74.7%	78%

Source: Company data, CMS (HK)

- 2) Strategic co-operation and M&A – Greentown Service has formed strategic co-operations with other SOEs including Zhongchu property (中储地产) and Jinan High-tech Development Authority (济南高新技术管委会). These SOEs have large reserves of landbank and completed properties.

Greentown Service has also expanded the geographical coverage by M&A to outside Hangzhou and Yangtze River Delta. Recent acquisitions in past 12 months include Zheyuan Property Management (Zhejiang), Anhui Shengan (Anhui), Jilin Tianshun Property Services (Jilin), and Tianjin Yinte Property Services (Tianjin).

The company additionally earmarked 38% (HK\$535mn) of the IPO proceeds for acquiring property management companies in the future. ~RMB80mn has been utilized for acquisition in 1H17.

Figure 19: Recent co-operations & acquisitions by Greentown Service

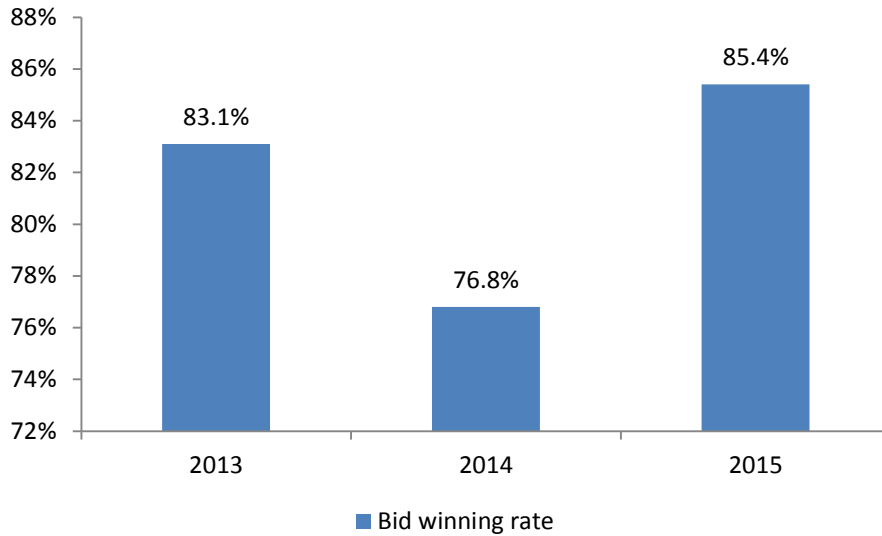
Date	Company	Nature	Method	Stake
Jun-17	Zhejiang Nansong Supply Chain Mgmt. (浙江蓝颂)	Privately-owned	Acquisition	27%
May-17	Tianjin Yinte Property Service (天津因特)	Privately-owned	Acquisition	100%
Feb-17	Jinlin Tianshun Property Service (吉林天顺)	Privately-owned	Acquisition	70%
Dec-16	Jiangxi Gantie (江西赣铁)	SOE	JV	51%
Nov-16	Agricultural Bank of China (农业银行) (601288.SH)	SOE	Strategic Cooperation	N/A
Oct-16	Zhongzhu Property (中储地产)	Privately-owned	Strategic Cooperation	N/A
Oct-16	Yinrun Property (银润物业)	Privately-owned	Acquisition	60%
Oct-16	Anhui Shengan (安徽盛安)	Privately-owned	Acquisition	49%
Aug-16	Zheyuan Property Management (浙元物业管理)	SOE	Acquisition	40%
Aug-16	Xiangtan Chengfa (湘潭城发)	SOE	JV	51%
Jan-16	Jinan High-tech (济南高新)	SOE	Strategic Cooperation	51%

Source: Company data, CMS (HK)

- 3) Open biddings – Greentown Service also grew its GFA under management by participating in open-biddings, mainly in top-tiered cities including Shanghai, Hangzhou and Suzhou.

The achieved winning rates from open biddings are as high as 77%-85% in 2013-2015.

Figure 20: Bid winning rate from 2013-2015



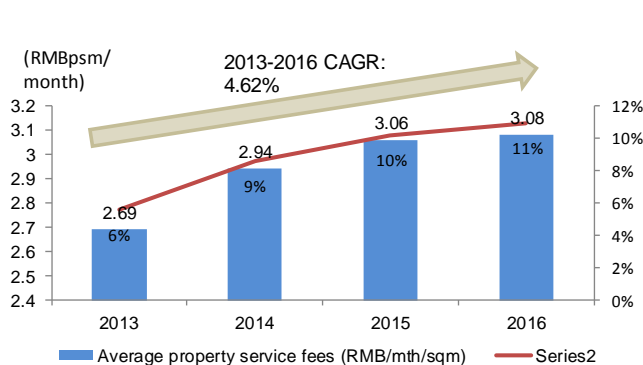
Sources: Company data, CMS (HK)

Steadily growing average management fees

Greentown Service’s achieved average management fees was RMB3.08psm/month in FY16, which is higher than industry average of RMB1.5-2.0psm/month, as company focuses on providing property management services in higher-end residential apartments.

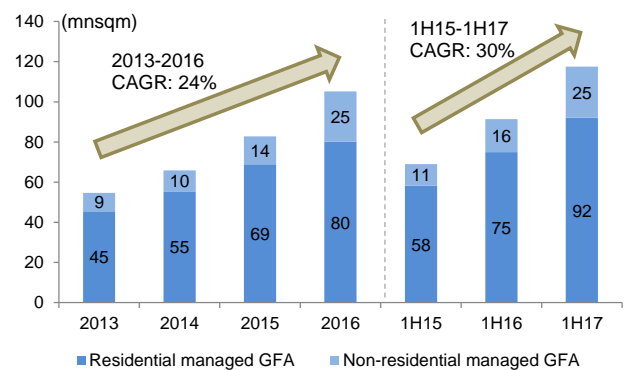
With company put more efforts on commercial/ non-residential property management services with even-higher average fees, the non-residential managed GFA has increased from 9mn sqm in 2013 (17% of total managed GFA) to 25mn sqm in 2016 (24% of managed GFA).

Figure 21: Average management fees and gross margin of property management service segment from 2013 to 2016



Sources: Company data, CMS (HK)

Figure 22: Increasing portion from non-residential managed GFA



Sources: Company data, CMS (HK)

Introduction of value-added services

As the group planned to place more resources to develop and scale up the value-added service segment in 2016, the value-added services segment has gained increasingly important position and has achieved +75% YoY in FY16 and +123% YoY 1H17.

Greentown Service currently provides 5 types of value-added services to residents, namely 1) property asset management services, 2) community products and services, 3) cultural & education services, 4) Home living services, and 5) Community space services

Figure 23: Value-added services revenue

(RMB mn)	2013	2014	2015	2016	1H17
Community products and services	34	41	105	309	86
Home living services	69	85	146	134	29
Community space services	14	16	26	41	33
Property asset management services	-	-	-	-	195
Cultural & education services	-	-	-	-	9
Total value-added services revenue	117	142	277	484	353

Source: Company data, CMS (HK)

1) Property asset management services (绿城置换) – property asset management services mainly involves the provision of property agency/ leasing services for residents.

There were 100 branches as of 1H17, up from 46 branches in 2016. Property asset management services revenue amounted to RMB195mn in 1H17.

Figure 24: The agency branch in Hangzhou launched in Nov-2016



Sources: fang.com, CMS (HK)

Figure 25: The Greentown agency website providing second-handed property platform across China



Sources: Company website, CMS (HK)

2) Community products & services – The community products and services segment involves the sale of food and beverages related products to the residents, including packaged rice and canned food.

In FY16, Greentown Service has achieved RMB309mn in revenue from community products & services (64% of total value-added services revenue).

Figure 26: Highly-promoted packaged rice with gross profit margin ~20%



Sources: Company data, CMS (HK)

Figure 27: Packaged rice with various sizing to cater for the need of clients



Sources: Company data, CMS (HK)

3) Cultural & education services – Greentown Service introduced cultural and education services in 1H17 through offering nursery and pre-primary schools for children in their managed communities, including early education services, extra-curriculum activities, summer/winter camps, and family education consulting services. 8 Wonderful Gardens were established in Zhejiang Province as of Aug-17.

In 1H17, company has achieved cultural & education services revenue of RMB9mn (FY16: nil).

Figure 28: Wonderful Garden in YuHang, Hangzhou



Sources: Dianping.com, CMS (HK)

Figure 29: Interior of YuHang Wonderful Garden



Sources: Company data, CMS (HK)

Figure 30: Summer tutorial courses hosted by Wonderful Garden

课程合作伙伴	课时	时间	御园业主专享
毛毳中国舞	6节/150元/节	8月	免费
白玉兰拉丁舞	6节/200元/节	8月	免费
鼎城街舞	4节/200元/节	8月	免费
米罗星少儿美术	6节/100元/节	8月	免费
乐博机器人	4节/300元/节	8月	免费
金话筒口才与表演	6节/150元/节	8月	免费
文海琴行	4节/200元/节	8月	免费
星丝路少儿模特	6节/300元/节	8月	免费
徐静少儿肚皮舞	6节/200元/节	8月	免费
黑马武术跆拳道	6节/200元/节	8月	免费

Sources: fang.com, CMS (HK)

Figure 31: Cultural and education development strategy



Sources: Company data, CMS (HK)

4) Home living services – this division mainly involves the offering of property repair, maintenance and housekeeping services for the community residents. The home living services segment achieved revenues of RMB134mn in 2016 (-7.7% YoY).

5) Community space services – the community space services segment mainly generates revenues by leasing the public space for advertisement and receiving vehicle parking fee. This division achieved revenues of RMB41.1mn in 2016 (+56.2% YoY).

Financial Analysis

Major assumptions

Below are the major assumptions used in our financial models and projection:

Managed GFA:

We expect Greentown Service's managed GFA to +27mn sqm/ +37mn sqm/ +48mn sqm in FY17-19E and total managed GFA to reach 217mn sqm by end-19E, given that 1) company has 135mn sqm of reserved GFA which should turn into managed GFA over the next 3-4 years (average 38mn sqm per year); and 2) additional managed GFA from strategic co-operations and M&A, and open biddings.

Figure 32: Managed GFA forecast

(mn sqm)	2014	2015	2016	2017E	2018E	2019E
Managed GFA b/f	55	66	83	105	132	169
Add: Reserved GFA converted into managed GFA	11	17	22	27	37	48
Managed GFA at y/e	66	83	105	132	169	217
YoY (%)	20%	26%	27%	26%	28%	28%

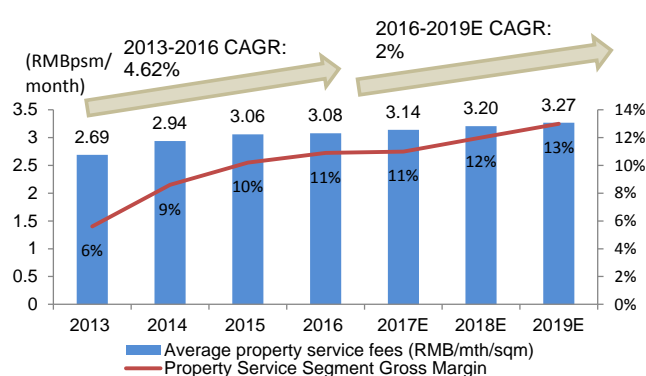
Source: Company data, CMS (HK)

Average management fees:

We expect Greentown Service's average management fees to +2% YoY to RMB3.14psm/ 3.2psm/ 3.27psm per month for FY17E-19E from RMB3.08psm in FY16.

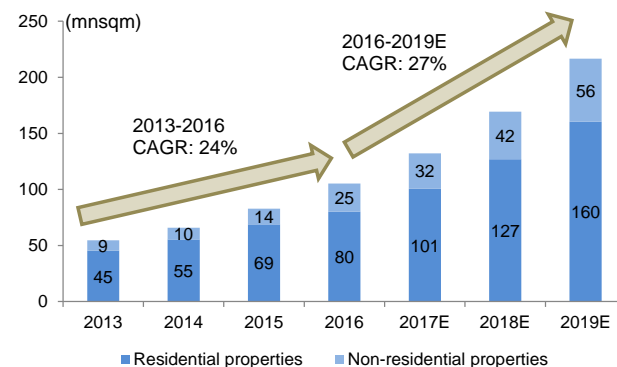
Company has been increasing its efforts on commercial/ non-residential property management services which generally have higher average fees. We expect non-residential property managed GFA to increase to 32mn sqm/ 42mn sqm/ 56mn sqm (or 24%/ 25%/ 26% of total managed GFA) in FY17E-19E.

Figure 33: Average management fees and gross margin of property management services segment from 2013 to 2019E



Sources: Company data, CMS (HK)

Figure 34: Increasing portion from non-residential managed GFA, from 2013-2019E



Sources: Company data, CMS (HK)

Property services revenue:

As the company does not charge property management fees for common areas including public facilities, facilities rooms, visitor parking and swimming pools, the revenue-bearing GFA to managed GFA ratios for 2013-16 are 74-77%. We assume 75% of managed GFA to be revenue-bearing GFA for FY17-19E.

Figure 35: Property services revenue forecast

	2013	2014	2015	2016	2017E	2018E	2019E
Managed GFA during the year (mn sqm)	55	66	83	105	132	169	217
Revenue-bearing GFA ratio	77%	76%	77%	74%	75%	75%	75%
Revenue-bearing GFA (mn sqm)	42	50	64	78	99	127	163
Avg mgt fees (RMBpsm/mth)	2.69	2.94	3.06	3.08	3.14	3.20	3.27
Prop. services revenue (RMBmn)	1,224	1,624	2,091	2,620	3,341	4,348	5,677

Source: Company data, CMS (HK)

▪ **Major value-added services:**

- 1) Property asset management services – We expect the total number of branches to reach 200/500 by 17E/19E from 100 in 1H17, and property asset management services revenue to be RMB332mn/ RMB565mn/ RMB847mn for FY17-19E.
- 2) Community products & services – The segment has achieved 60% CAGR in 2013-2016 and 171% YoY in 1H17. Given the overwhelming response and company's plan to expand rice product variety and sizing in 2H17-2019E, we expect this segment revenue to be RMB336mn/ 387mn/ 456mn in 17E/18E/19E respectively.
- 3) Cultural & education services – We expect Greentown Service to open 30 Wonderful Gardens by 2H17, and over 100 Wonderful Gardens by 2020, and cultural & education services revenue to be RMB67mn/ 101mn/ 151mn for FY17-19E.

Figure 36: Value-added services revenue forecast

(RMB mn)	2013	2014	2015	2016	2017E	2018E	2019E
Community products and services	34	41	105	309	336	387	456
Home living services	69	85	146	134	138	155	183
Community space services	14	16	26	41	45	52	63
Property asset management services	-	-	-	-	332	565	847
Cultural & education services	-	-	-	-	67	101	151
Total value-added services revenue	117	142	277	484	920	1,260	1,700

Source: Company data, CMS (HK)

▪ **Consulting services:**

Consulting services refer to the provision of consulting services for real estate developers regarding site selection, project planning and design.

As the recent land bidding markets have been dominated by those large property developers which have sufficient in-house resources to handle the consulting services, we expect the consultancy services revenue growth to slow down from +12-33% YoY in 2014-16 to +4% YoY p.a. in FY17-19E.

Figure 37: Consulting services revenue forecast

(RMB mn)	2013	2014	2015	2016	2017E	2018E	2019E
Total consultancy serv revenue	330	439	551	618	643	668	695
YoY growth (%)	N/A	33%	25%	12%	4%	4%	4%

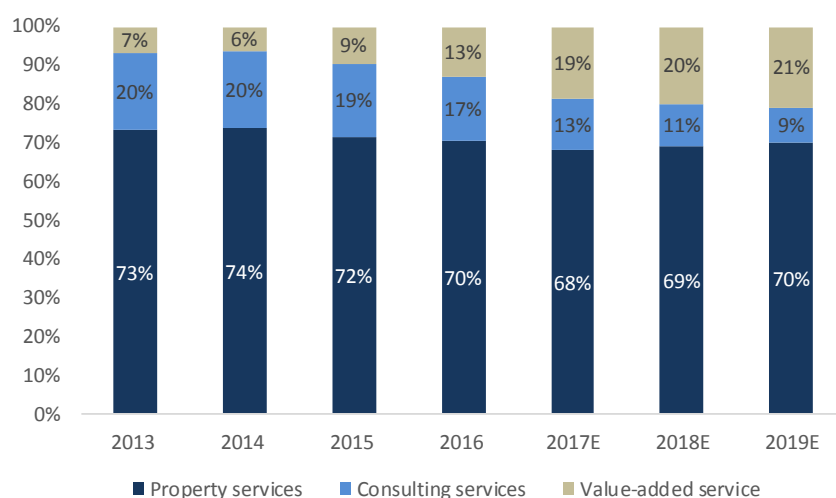
Source: Company data, CMS (HK)

Figure 38: Revenue forecast summary

(RMB mn)	2013	2014	2015	2016	2017E	2018E	2019E
Property services	1,224	1,624	2,091	2,620	3,341	4,348	5,677
Consulting services	330	439	551	618	643	668	695
Value-added services	117	142	277	484	920	1,260	1,700
Total revenue	1,672	2,205	2,919	3,722	4,903	6,276	8,072

Source: Company data, CMS (HK)

Figure 39 The revenue breakdown(%) by segments from 2013 to 2019E



Sources: Company data, CMS (HK)

▪ **GP margins:**

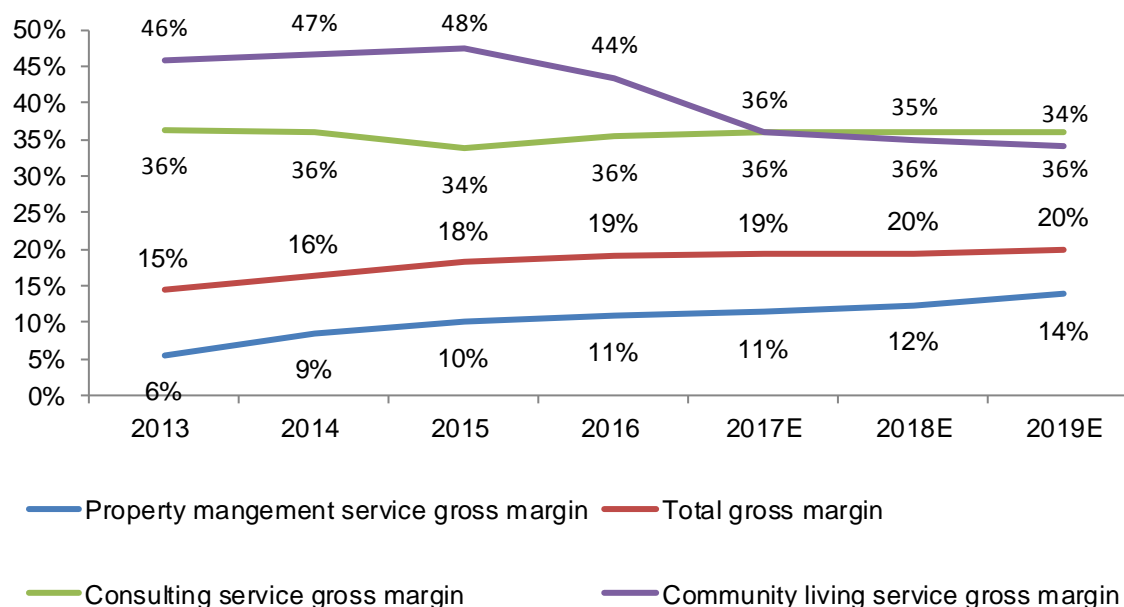
Property management services – The gross margin has improved from 6% in 2013 to 11% in 2016. As company continues to expand into higher-per unit fees and higher-margin non-residential property management (managed GFA of non-residential to increase from 17% in 2013, 24% in 2016, to 26% in 2019E), we expect GP margin of property management services to improve further to 11%/ 12%/ 14% in FY17-19E.

Value-added services – We estimate the value-added services margin is set to decrease from 44% in 2016 to 36% in 2017E and further to 34% in 2019E. This is mainly due to the expansion of agency business and education services in early stage which incurs a high amount of start-up costs.

Consulting services – As for the consulting services, we expect the margin to stabilise at 36%, which is in-line with previous years.

Overall GP margin – overall GP margin will increase from 19.2% in FY16 to 19.3%/ 19.5%/ 20% in FY17-19E.

Figure 40: The gross margin breakdown from 2013 to 2019E



Sources: Company data, CMS (HK)

▪ **Net margin:**

The SG&A expense as % of total revenue is expected to increase from 7.7% in 2016 to 7.9%/8.2%/8.5% in 17E/18E/19E respectively due to high start-up costs and expansion of new business which would incur additional operating and marketing costs.

As for net margin, we expect it to show slight improvement from 7.7% in 2016 to 7.8%/7.8%/7.9% in 17E/18E/19E respectively. The improvement in GP margin would partially offset the increase in SG&A expenses.

Figure 41: Summary P&L forecast

(RMB mn)	2013	2014	2015	2016	2017E	2018E	2019E
Revenue	1,672	2,205	2,919	3,722	4,903	6,276	8,072
Gross profit	242	363	531	716	943	1,221	1,612
SG&A expenses	(126)	(151)	(238)	(285)	(388)	(512)	(690)
Other expenses	(5)	(12)	(9)	(15)	(21)	(27)	(35)
Profit before tax	108	199	278	419	536	685	891
Profit after tax	79	149	198	286	385	492	640
Net margins (%)	4.7%	6.8%	6.8%	7.7%	7.8%	7.8%	7.9%
Weighted average no. of shares (mn)	2,000	2,000	2,000	2,368	2,778	2,778	2,778
EPS (RMB/shr)	0.038	0.075	0.101	0.125	0.143	0.183	0.237
EPS- CMS/ consensus	N/A	N/A	N/A	N/A	101%	97%	95%

Source: Company data, CMS (HK)

▪ **Balance sheet & cashflows**

The company has maintained a sound financial position with net cash position since 2013 and a debt-free position in 2016 after the company has spent 19% of IPO proceeds to repay the loan.

With RMB2.2bn cash balance on hand, this should be sufficient for company's potential acquisitions for the next 2-3 years, and we expect company to remain in a net-cash position for FY17-19E.

Figure 42: Balance sheet and net gearing ratios forecast

(RMB mn)	2013	2014	2015	2016	2017E	2018E	2019E
S-term debts	40	100	180	-	-	-	-
L-term debts	-	-	-	-	-	-	-
Gross debts	40	100	180	-	-	-	-
Cash	299	437	836	2,182	2,250	2,667	3,340
Restricted cash	29	58	91	115	115	115	115
Net debts/(cash)	(289)	(395)	(747)	(2,296)	(2,365)	(2,782)	(3,455)
Shareholders' equity	178	207	132	1,719	1,792	1,919	2,176

Source: Company data, CMS (HK)

We expect the company to maintain the solid track record of high management fee collection rate of 96% for FY17-19E with reference to its proven track records in previous years. We see that the high management fees can ensure the company to maintain a sustainable and growing cashflow for FY17-19E.

Figure 43: Operating cashflow forecast

(RMB mn)	2013	2014	2015	2016	2017E	2018E	2019E
Mgmt. Fee income	1,224	1,624	2,091	2,620	3,341	4,348	5,677
Mgmt. Fee Collection rate	95.6%	95.9%	96.6%	97.4%	96.0%	96.0%	96.0%
Cash collected	1,170	1,557	2,020	2,552	3,208	4,174	5,450
VAS income	117	142	277	484	920	1,260	1,700
Consulting income	330	439	551	618	643	668	695
Direct cost	(1,429)	(1,841)	(2,388)	(3,006)	(3,960)	(5,055)	(6,460)
SG&A	(126)	(151)	(238)	(285)	(388)	(512)	(690)
Other	137	236	365	154	168	380	510
Tax	(26)	(49)	(76)	(124)	(139)	(178)	(232)
Operating Cashflow	174	333	511	394	449	737	973

Source: Company data, CMS (HK)

▪ **Dividend payout policy**

The company has paid out 32% of its profits as dividends in FY16.

For FY17E-19E, we expect the company to maintain its dividend payout ratios at 32%, or DPS of RMB0.05/RMB0.0583/ RMB0.0768, supported by strong financial positions and sustainable cash inflows from growing management property revenue.

Figure 44: DPS and dividend payout ratio forecast

	2014	2015	2016	2017E	2018E	2019E
EPS (RMB/shr)	0.075	0.101	0.125	0.143	0.183	0.237
DPS (RMB/shr)	N/A	N/A	0.040	0.046	0.059	0.076
Dividend payout ratio (%)	N/A	N/A	32%	32%	32%	32%

Sources: Company data, CMS (HK)

Valuation

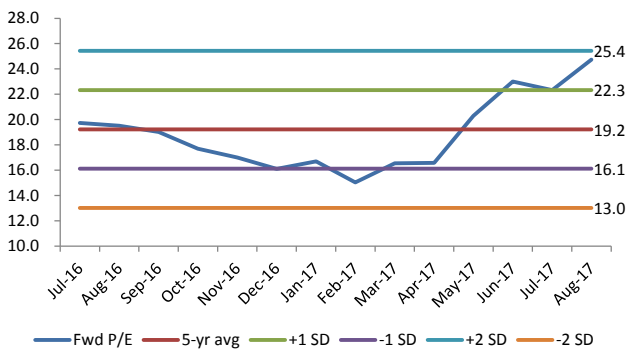
Initiate with BUY, Target price HK\$5.66

We initiate coverage on Greentown Service with a BUY rating; expect re-rating to continue

Our target price of HK\$5.66 is set at 26x P/E on FY18E EPS, which is 2 standard deviations above historical average P/E of 19.2x. The company deserves a premium valuation to historical average and industry peers, given 1) its improved earnings visibility on an increased reserved GFA pipeline and the value-added services segment as the new revenue growth driver; and 2) a higher-than-peers' FY17-19E earnings CAGR of 29% (Colour Life: 24%, COPH: 18% on Bloomberg consensus). Stock price has +85% YTD, but we believe this is just the beginning of stock re-rating cycle as visible managed GFA growth, robust VAS driver & high earning growth should support further stock re-rating.

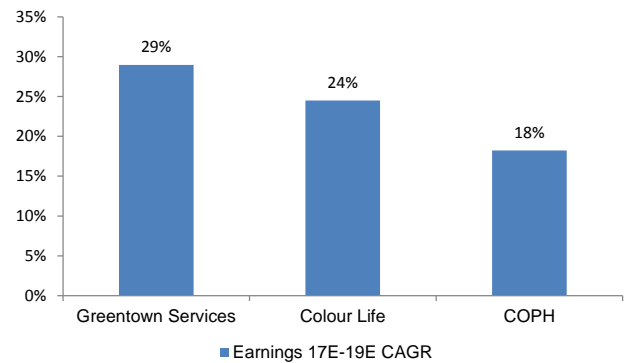
Target price implies 19% potential upside, initiate coverage with BUY.

Figure 45: Greentown Service 's fwd P/E



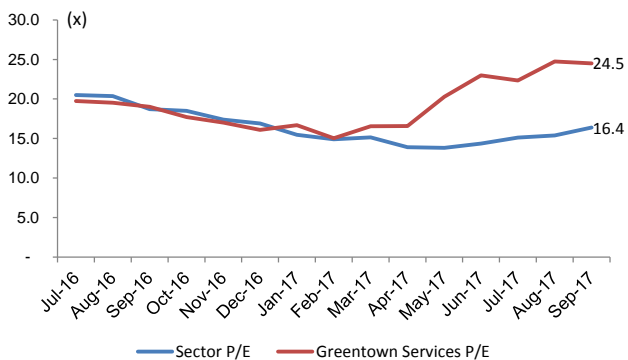
Sources: Company data as of market close on 28 Sept, 2017, Bloomberg, CMS (HK)

Figure 46: Greentown Service and industry peers' earnings CAGR (FY17-19E)



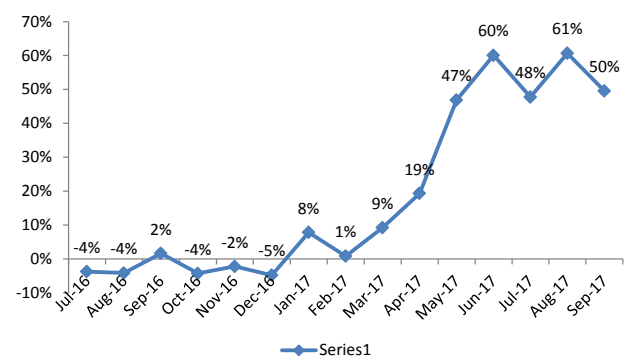
Sources: Company data, Bloomberg, CMS (HK)

Figure 47: Greentown Service and industry peers' fwd P/E ratios



*industry peers' P/E includes Colour Life (1778.HK, N-R) and COPH (2669.HK, N-R) Sources: Company data, Bloomberg, CMS (HK)

Figure 48: Greentown Service's P/E premium to industry peers



*industry peers' P/E includes Colour Life (1778.HK, N-R) and OPH (2669.HK, N-R) Sources: Company data, Bloomberg, CMS (HK)

Figure 49: Greentown Service and peers' valuation and dividend yields

Company	Ticker	Rating	Curr. Price (HK\$)	Target price (HK\$)	Upside	17E P/E (x)	18E P/E (x)	19E P/E (x)	17E div yld (%)	18E div yld (%)	19E div yld (%)
Greentown Service	2869 HK	BUY	4.76	5.66	N/A	27.9	21.8	16.8	1.1	1.5	1.9
Colourlife	1778 HK	N-R	5.08	N/A	N/A	15.8	12.7	10.6	2.7	3.1	3.9
COPH	2669 HK	N-R	1.81	N/A	N/A	19.7	16.2	13.9	1.7	2.0	2.3
Average						21.1	16.9	13.8	1.8	2.2	2.7

*Bloomberg consensus. Sources: Bloomberg data as of market close on 28 Sept, 2017, CMS (HK) estimates

Investment Risk

- 1) The delayed delivery of reserved GFA into managed GFA will directly affect the revenue from the property management segment.
- 2) The expansion of asset management segment and cultural & education services segment may not be executed as planned.
- 3) In regard of the current labor-intensive nature of property management industry, a dramatic increase in labor cost could adversely affect the operation of the company. Also, the competition among its peers within the industry could be fierce as the industry is currently going through the consolidating stage.

Appendix 1: Management Background

Ms. Li Hairong (李海荣), Executive Director, aged 59

Ms. Li was appointed as the Chairman and Executive Director on 27 November 2015. From June 1997 to September 1998, Ms. Li held various positions (Vice General Manager, Executive Vice General Manager and Executive General Manager) at Greentown Property Group Co., Ltd. (绿城房地产集团有限公司). Ms. Li joined the group in October 1998 and has been responsible for the development strategy and strategic planning of the Group as well as for making decisions for material operational matters.

Ms. Li has also been the Vice President of China Property Management Association (中国物业管理协会) and Certified Property Manager authorized by the MOHURD since June 2010 and May 2013 respectively. She has also been a Vice President of the Zhejiang Province Real Estate Industry Association (浙江房地产协会) and the head of its Property Management Special Committee (物业管理专业委员会) since December 2011 and July 2012 respectively.

As for the education background, Ms. Li graduated from the Department of Basic Specialized Training for Party and Government Officials (黨政管理幹部基礎專修科) of Zhejiang Radio and Television University (浙江廣播電視大學) in Zhejiang Province, the PRC in July 1988

Mr. Yang Zhangfa (杨掌法), Executive Director and Chief Executive Officer, aged 45

Mr. Yang has been the Executive Director and Chief Executive Officer since Nov 2015. He is responsible for the overall business operation and daily management of the Group, making decisions for material operational matters, participating in Board decisions and implementing the resolutions of the Board. Mr. Yang joined the Group in February 2002 and has served in various positions (Assistant to General Manager, Vice General Manager, Executive General Manager and the General Manager) in Greentown Property Management. Additionally, Mr. Yang currently holds directorship in various subsidiaries of the Group.

Mr. Yang has been the bidding expert for property management in Hangzhou (杭州市物业管理招投标专家), an expert for assessment of excellent property management projects in Hangzhou (杭州市物业管理优秀项目考评专家库成员) and Certified Property Manager authorized by MOHURD since March 2014 July 2014 and since May 2013 respectively.

As for the education background, Mr. Yang graduated from Zhejiang University (浙江大学) in Hangzhou, the PRC in July 1997 majoring in real estate development and management, and he graduated from Hunan University (湖南大学) in Changsha, the PRC in April 2005 through long distance learning majoring in Business Administration.

Mr. Wu Zhihua (吴志华), Executive Director and Chief Operating Officer, aged 38

Mr. Wu has been the Executive Director and Chief Operating Officer since Nov 2015. He is responsible for management work relating to the overall operation of the Group as well as for management of administration and human resources. Before joining the Group, Mr. Wu worked in Zhejiang Guesthouse Co., Ltd. (浙江宾馆有限公司) from July 2002 to June 2003. Mr. Wu joined the Group in June 2003 and was subsequently promoted as the Executive Vice General Manager and the General Manager of Zhejiang Lvsheng Property Management Company Limited (浙江綠升物业管理有限公司) from April 2008 to August 2008 and from August 2008 to December 2008, respectively. In addition, Mr. Wu currently holds directorship in various subsidiaries of the Company.

Mr. Wu has been the President of the Property Management Association of Xihu District, Hangzhou (杭州市西湖區物業管理協會) since July 2014. He has been a Certified Property Manager authorized by MOHURD since May 2013.

Mr. Wu graduated from Zhejiang University (浙江大学) in Hangzhou, the PRC in June 2002 with a Bachelor's degree majoring in Tourism Management, and obtained his Master of Science degree in Quality Management through an external program from The Hong Kong Polytechnic University (香港理工大学) in Hong Kong in December 2007.

Mr. Shou Bainian (壽柏年), Non-executive Director, aged 63

Mr. Shou has been the Non-executive Director since Nov 2015. He is responsible for providing guidance and supervision regarding the business and operation of the Group. Mr. Shou became an indirect holder of equity interests in Greentown Property Management in September 2000. He worked as the Executive Vice Chairman and the General Manager of Greentown Property Group Co., Ltd. (绿城房地产集团有限公司) from April 1998 to March 2015 and was primarily responsible for its overall business operation and financial management. He has been the director of Greentown Holdings since January 2002. He has also served in various positions (Executive Vice Chairman, Chief Executive Officer, Executive Director) in Greentown China.

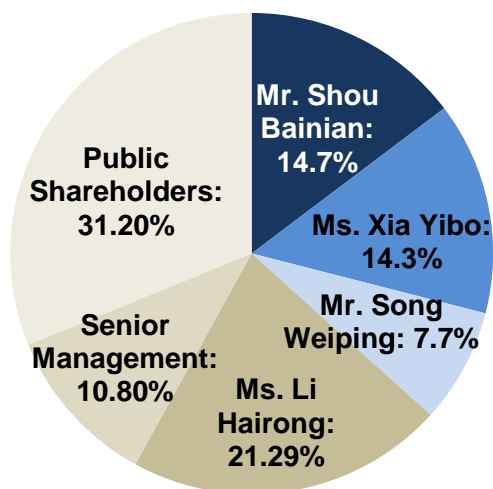
Mr. Shou was also qualified as a senior economist in Enterprise Operation and Management by Zhejiang Province Human Resources and Social Security Department (浙江省人力資源和社會保障廳) since December 1996. Mr. Shou graduated from Hangzhou University (杭州大學) in Zhejiang Province, the PRC with a Bachelor's degree majoring in History in April 1982.

Ms. Xia Yibo (夏一波), Non-executive Director, aged 54

Ms. Xia has been the Non-executive Director since 27 November 2015, and is responsible for providing guidance and supervision regarding the business and operation of the Group. Ms. Xia became an indirect holder of equity interests in Greentown Property Management in September 2002. Ms. Xia was the Chairlady of Hangzhou Greentown Decorating and Design Co., Ltd. (杭州绿城装潢设计有限公司) from September 1996 to August 2002. She has also been the Chairlady of Shanghai Wanley Insurance Broker Co., Ltd. (上海万利保險經紀有限公司) since September 2002. Ms. Xia has been serving as the Director of Greentown Holdings since September 2002 and is now the Chairlady of the Company. Ms. Xia graduated from the Department of Chinese of Zhejiang Radio and Television University (浙江廣播電視大學) in Zhejiang Province, the PRC in August 1985.

Appendix 2: Shareholding Structure

Figure 50: The Shareholding structure of Greentown Service



Sources: Bloomberg data as of 22 Sept 2017, Company data, CMS (HK)

Financial Summary

Balance Sheet

RMB mn	2015	2016	2017E	2018E	2019E
Non-current assets	265	470	506	544	552
Property, plant and equipment	64	264	328	366	375
Trade and other receivables	0	0	0	0	0
Interest in associates	12	32	32	32	32
Interest in joint ventures	3	94	94	94	94
Others	186	78	51	51	51
Current assets	1,377	2,853	3,233	3,858	4,800
Inventories	2	10	97	116	139
Trade and other receivables	420	547	672	860	1,106
Cash	836	2,182	2,250	2,667	3,340
Other current assets	119	115	215	215	215
Total assets	1,642	3,323	3,739	4,401	5,352
Current liabilities	1,472	1,555	1,885	2,404	3,078
Payables	847	943	1,193	1,524	1,947
Bank loans	180	-	-	-	-
Others	445	612	691	881	1,131
Long-term liabilities	21	22	24	24	24
Borrowings	0	0	0	0	0
Others	21	22	24	24	24
Total liabilities	1,493	1,577	1,908	2,428	3,101
Share capital	0	0	0	0	0
Reserves	132	1,719	1,792	1,919	2,176
Minority interests	17	27	39	55	75
Total equity	149	1,746	1,831	1,974	2,250
Equity & liabilities	1,642	3,323	3,739	4,401	5,352

Cashflow Statement

RMB mn	2015	2016	2017E	2018E	2019E
CF from operating activities	511	394	449	737	973
Net profit	278	419	536	685	891
Adjusting items	41	42	(66)	(82)	(92)
Working capital changes	257	13	103	273	351
Income tax paid	(65)	(80)	(124)	(139)	(178)
CF from investing activities	132	(147)	(295)	(220)	(200)
Capital expenditure	(58)	(84)	(130)	(120)	(100)
Other investments	189	(63)	(165)	(100)	(100)
CF from financing activities	(244)	1,057	(86)	(100)	(100)
Net borrowings	80	(180)	-	-	-
Dividends	(265)	(22)	(100)	(100)	(100)
Others	(59)	1,258	14	-	-
Net cash flow	399	1,303	69	417	673

Sources: Company data, CMS (HK) estimates

Profit & Loss Statement

RMB mn	2015	2016	2017E	2018E	2019E
Revenues	2,919	3,722	4,903	6,276	8,072
Cost of sales	(2,388)	(3,006)	(3,960)	(5,055)	(6,460)
Selling expenses	(6)	(10)	(15)	(20)	(25)
Administrative expenses	(233)	(275)	(373)	(492)	(664)
Other income/ loss	20	20	25	32	41
Other operating expenses	(29)	(35)	(46)	(59)	(75)
Finance costs	(7)	(2)	(2)	(3)	(4)
Associates & JCEs	1	3	5	6	7
PBT	278	419	536	685	891
Taxes	(76)	(124)	(139)	(178)	(232)
Profit after tax	203	295	397	507	660
Minority interests	(5)	(9)	(12)	(16)	(20)
Net profit	198	286	385	492	640
Adjusted EPS (RMB)	0.10	0.12	0.14	0.18	0.24
DPS (RMB)	-	0.04	0.05	0.06	0.08

Financial Ratios

RMB mn	2015	2016	2017E	2018E	2019E
Growth YoY					
Revenue (%)	32%	28%	32%	28%	29%
Net profit (%)	33%	44%	35%	28%	30%
Profitability					
GP margin (%)	18%	19%	19%	19%	20%
Net profit margin (%)	7%	8%	8%	8%	8%
Balance sheets					
Net gearing (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Quick Ratio	0.9	1.8	1.7	1.6	1.5
Adj. ROA (%)	12%	9%	10%	11%	12%
Adj. ROE (%)	150%	17%	21%	26%	29%
Valuation analysis					
Adj. P/E (x)	39.3	32.0	27.9	21.8	16.8
Adj. P/B (x)	60.3	5.5	6.2	5.8	5.1
Div yield (%)	N/A	1.0	1.2	1.5	1.9

Investment Ratings

Industry Rating	Definition
OVERWEIGHT	Expect sector to outperform the market over the next 12 months
NEUTRAL	Expect sector to perform in-line with the market over the next 12 months
UNDERWEIGHT	Expect sector to underperform the market over the next 12 months

Company Rating	Definition
BUY	Expect stock to generate 10%+ return over the next 12 months
NEUTRAL	Expect stock to generate +10% to -10% over the next 12 months
SELL	Expect stock to generate loss of 10%+ over the next 12 months

Analyst Disclosure

The analysts primarily responsible for the preparation of all or part of the research report contained herein hereby certify that: (i) the views expressed in this research report accurately reflect the personal views of each such analyst about the subject securities and issuers; and (ii) no part of the analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed in this research report.

Regulatory Disclosure

Please refer to the important disclosures on our website <http://www.newone.com.hk/cmshk/en/disclosure.html> or <http://www.cmschina.com.hk/Research/Disclosure>.

Disclaimer

This document is prepared by China Merchants Securities (HK) Co., Limited ("CMS HK"). CMS HK is a licensed corporation to carry on Type 1 (dealing in securities), Type 2 (dealing in futures), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571). This document is for information purpose only. Neither the information nor opinion expressed shall be construed, expressly or impliedly, as an advice, offer or solicitation of an offer, invitation, advertisement, inducement, recommendation or representation of any kind or form whatsoever to buy or sell any security, financial instrument or any investment or other specific product. The securities, instruments or strategies discussed in this document may not be suitable for all investors, and certain investors may not be eligible to participate in some or all of them. Certain services and products are subject to legal restrictions and cannot be offered worldwide on an unrestricted basis and/or may not be eligible for sale to all investors. CMS HK is not registered as a broker-dealer in the United States and its products and services are not available to U.S. persons except as permitted under SEC Rule 15a-6.

The information and opinions, and associated estimates and forecasts, contained herein have been obtained from or are based on sources believed to be reliable. CMS HK, its holding or affiliated companies, or any of its or their directors, officers or employees ("CMS Group") do not represent or warrant, expressly or impliedly, that it is accurate, correct or complete and it should not be relied upon. CMS Group will not accept any responsibility or liability whatsoever for any use of or reliance upon this document or any of the content thereof. The contents and information in this document are only current as of the date of their publication and will be subject to change without prior notice. Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realized. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Opinions expressed herein may differ or be contrary to those expressed by other business divisions or other members of CMS Group as a result of using different assumptions and/or criteria.

This document has been prepared without regard to the individual financial circumstances and investment objectives of the persons who receive it. Use of any information herein shall be at the sole discretion and risk of the user. Investors are advised to independently evaluate particular investments and strategies, take financial and/or tax advice as to the implications (including tax) of investing in any of the securities or products mentioned in this document, and make their own investment decisions without relying on this publication.

CMS Group may have a long or short position, make markets, act as principal or agent, or engage in transactions in securities of companies referred to in this document and may also perform or seek to perform investment banking services or provide advisory or other services for those companies. This document is for the use of intended recipients only and this document may not be reproduced, distributed or published in whole or in part for any purpose without the prior consent of CMS Group. CMS Group will not be liable for any claims or lawsuits from any third parties arising from the use or distribution of this document. This document is for distribution only under such circumstances as may be permitted by applicable law. This document is not directed at you if CMS Group is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. In particular, this document is only made available to certain US persons to whom CMS Group is permitted to make available according to US securities laws, but cannot otherwise be made available, distributed or transmitted, whether directly or indirectly, into the US or to any US person. This document also cannot be distributed or transmitted, whether directly or indirectly, into Japan and Canada and not to the general public in the People's Republic of China (for the purpose of this document, excluding Hong Kong, Macau and Taiwan).

Hong Kong

China Merchants Securities (HK) Co., Ltd.

Address: 48/F, One Exchange Square, Central, Hong Kong

Tel: +852 3189 6888 Fax: +852 3101 0828