

SECTOR UPDATE

Property Management – China

1H23 Results Wrap-up: Benefitting From Strong Property Policies in 2H23

For 1H23 results, the decline in non-community VAS margin raises concerns while newly added interim dividends came as a surprise. The divergence between SOEs and POEs is more pronounced in business segment. SOEs reiterated their growth targets while lowering cyclical revenue will be good for POEs' long-term development. Maintain OVERWEIGHT on China's property management sector.

WHAT'S NEW

- Listed property management companies released their 1H23 financial results.

ESSENTIALS

- 1H23 results wrap-up for property management (PM) companies:** The decline in non-community VAS margin raises concerns while newly added interim dividends came as a surprise. For the 11 sample companies we assessed, on average: a) managed GFA increased 19.9% yoy, b) revenue grew 12.5% yoy, c) gross profit margin decreased by 0.6% yoy to 21.2%, d) gross profit margin of non-community value-added services (VAS) decreased 5.9%, e) attributable net profit grew 21.7% yoy, f) four out of 11 companies announced interim dividends for the first time (one POE and three SOEs), g) cash on hand decreased 7.5% yoy, and h) AR turnover days increased by six days hoh to 101 days.
- Divergence between SOEs and POEs is more pronounced.** To summarise: a) both SOEs and POEs reported positive PM segment revenue growth (SOEs/POEs: 21.8%/9.5% yoy), while SOEs performed much better in community VAS/non-community VAS (SOEs:23.1%/12.3% vs POEs: -1.7%/-41.2%), b) SOEs had more stable segment margins than POEs: the profit margin change of the PM segment (SOEs/POEs:+0.5%/-1.7%); community VAS (SOEs/POEs:+1.1%/-12.9%); non-community VAS(SOEs/POEs: -1.9%/-12.3%), c) SOEs reported 21.8% yoy growth in attributable net profit (mainly due to a rise in segment profit margin and lower S&GA expenses) while POEs reported an 8.7% yoy decline in attributable net profit.
- SOEs reiterated their growth targets while lowering cyclical revenue will be good for POEs' long-term development.** Targets of Key SOE players are as follows - COPH: 30% earnings CAGR in 14th Five-year Period (FYP); Poly Property Development: 20%+ earnings growth in 2023; CR Mixc: 40% earnings CAGR in 14th FYP, implying 27% CGAR in 2023-25. We expect SOE PM companies to continue to win market share and deliver strong growth in VAS, backed by better incentive schemes. POEs, with revenue from non-community VAS falling to 6% on average, are expected to gradually return to an asset-light and counter-cyclical nature.

ACTION

- Maintain OVERWEIGHT on the property management sector.** The central government recently introduced three stronger-than-expected policies to stabilise the property market: a) the PBOC lowered the minimum downpayment ratio for cities with home purchase restrictions, b) the PBOC lowered the mortgage rate floor for second homes, and c) the follow-up action by Tier 1 cities in adopting the new definition of first home mortgage. We believe these policies will help release upgrading demand, leading to an increase in property brokerage and home repair & decoration business, which are major components of community VAS segment. COPH remains our top pick for its high presence in Tier 1 cities and strong capacity of VAS expansion. We also like CR Mixc, which is expected to be a key beneficiary of supportive policies on consumption.

PEER COMPARISON

Company	Ticker	Rec	Price @ 4 Sep 23 (HK\$)	Target Price (HK\$)	Upside/ (Downside) to TP (%)	Market Cap (HK\$m)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	Yield 2023F (x)	Yield 2024F (x)
CR Mixc Lifestyle	1209 HK	BUY	35.60	49.69	39.6	10,365.3	27.2	21.5	4.7	4.2	1.5	1.9
China Overseas Property	2669 HK	BUY	9.50	11.69	23.0	3,983.2	19.8	15.1	6.6	5.1	1.5	2.0
Poly Property Development	6049 HK	BUY	36.70	52.80	43.9	2,590.5	13.9	11.8	2.2	1.9	1.8	2.1
Country Garden Services	6098 HK	HOLD	9.58	9.16	-4.4	4,122.2	8.0	8.4	0.8	0.7	4.2	4.0

Source: Bloomberg, UOB Kay Hian

OVERWEIGHT  
(Maintained)

SECTOR PICKS

Company	Ticker	Rec	Share Price (HK\$)	Target Price (HK\$)
COPH	2669 HK	BUY	9.50	11.69
CR Mixc	1209 HK	BUY	35.60	49.69

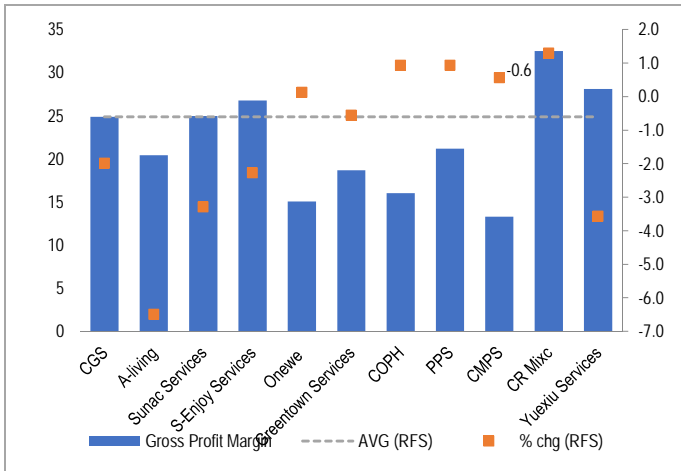
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ANALYST(S)

**Jieqi Liu**  
+852 2826 1392  
jieqi.liu@uobkayhian.com.hk

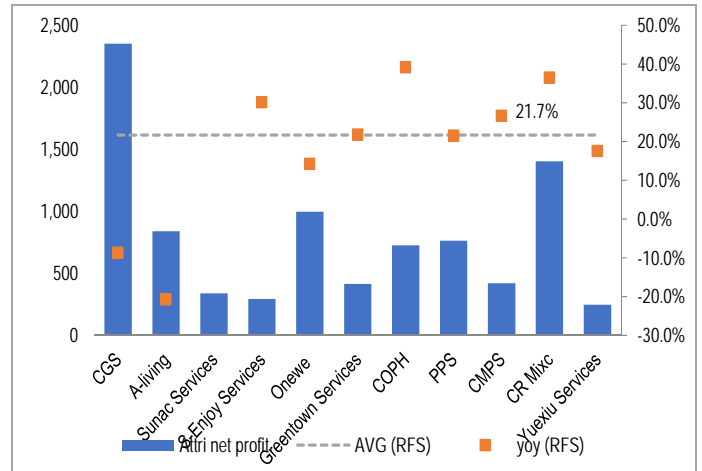
**Damon Shen**  
+86 21 54047225 ext.820  
damonshen@uobkayhian.com

### 1H23 REVENUE OF MAJOR PM COMPANIES



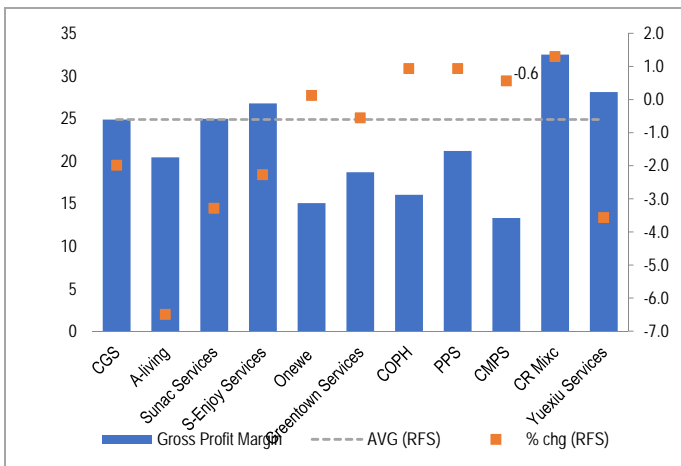
Source: UOB Kay Hian

### 1H23 ATTRIBUTABLE NET PROFIT OF MAJOR PM COMPANIES



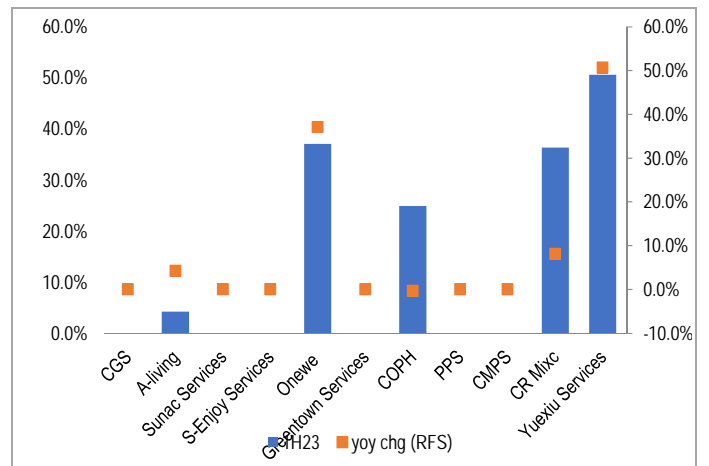
Source: UOB Kay Hian

### 1H23 GROSS PROFIT MARGIN OF MAJOR PM COMPANIES



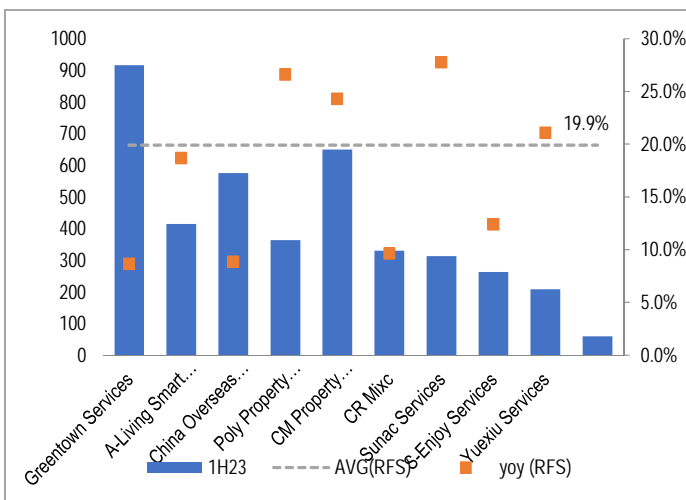
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### PAYOUT RATIO OF MAJOR PM COMPANIES



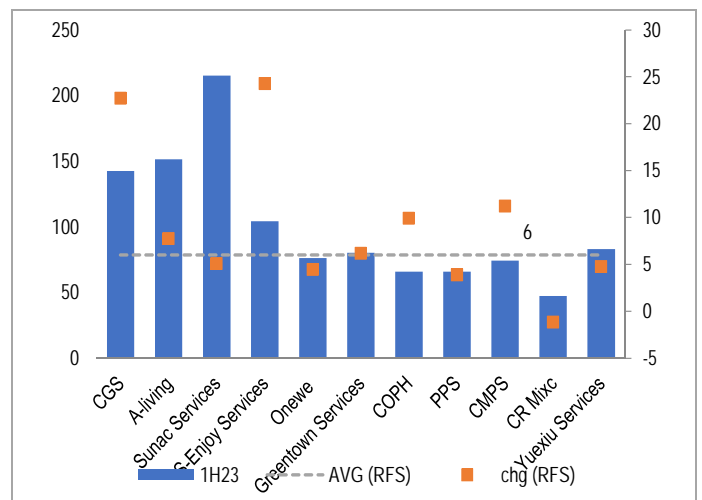
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### GFA UNDER MANAGEMENT FOR MAJOR PM COMPANIES



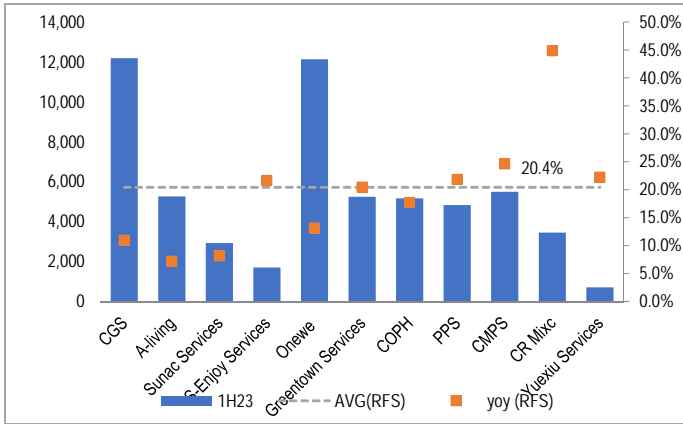
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### AR TURNOVER DAYS FOR MAJOR PM COMPANIES



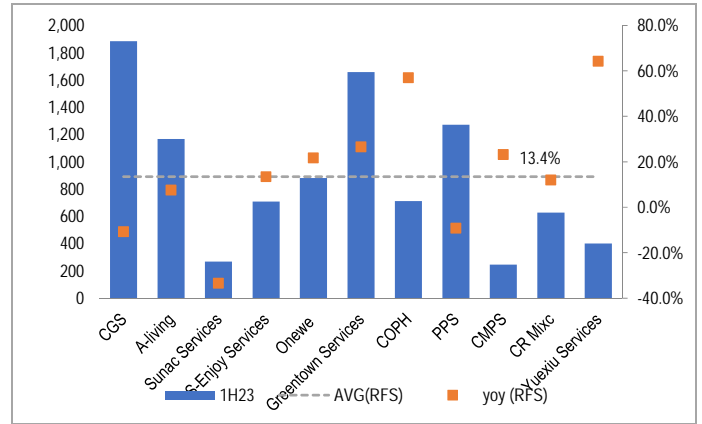
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### SEGMENT REVENUE OF BASIC PM



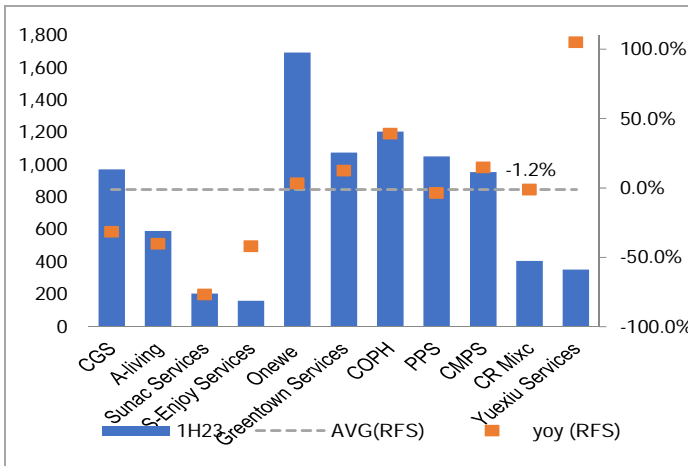
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### SEGMENT REVENUE OF COMMUNITY-VAS



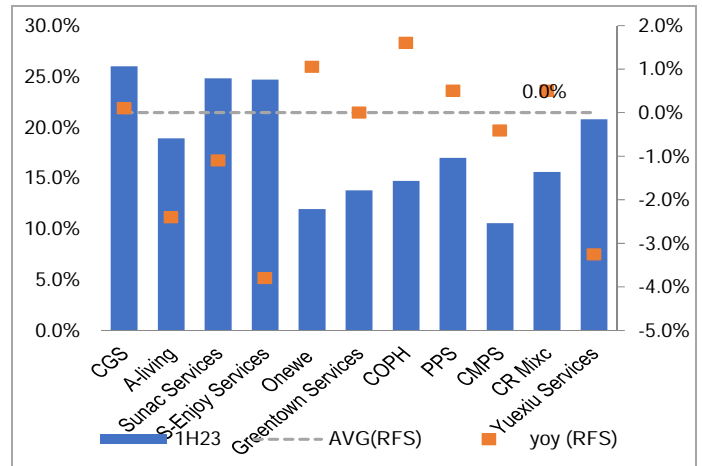
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### SEGMENT REVENUE OF NON-COMMUNITY VAS



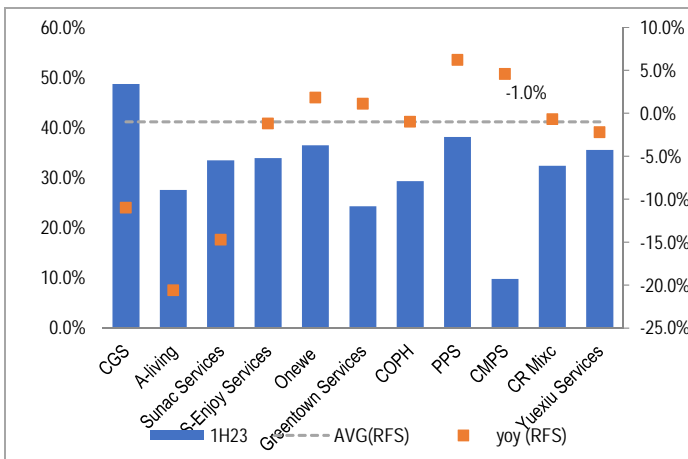
Source: UOB Kay Hian

### SEGMENT MARGIN OF BASIC PM



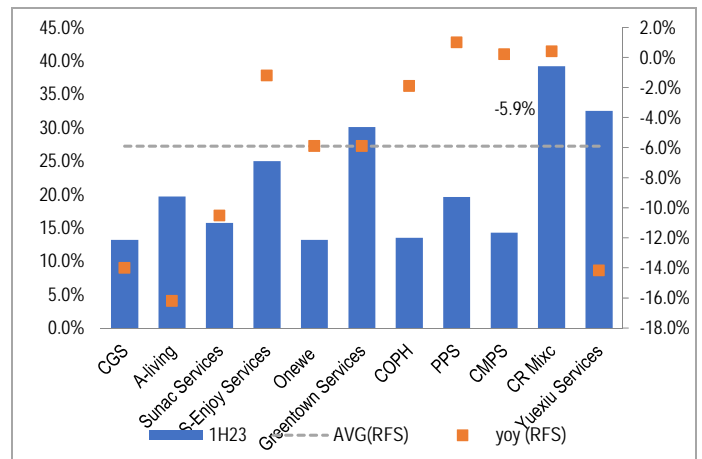
Source: UOB Kay Hian

### SEGMENT MARGIN OF COMMUNITY-VAS



Source: UOB Kay Hian

### SEGMENT MARGIN OF NON-COMMUNITY VAS



Source: UOB Kay Hian

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