



Company Report: Powerlong Commercial Management (09909 HK)

公司报告: 宝龙商业 (09909 HK)

Jack Liu 柳晨
(852) 2509 2149
chen.liu@gtjas.com.hk
25 September 2020

Completing Debut Acquisition After Listing, Initiate with "Accumulate"

上市后首宗收购落地，首予“收集”

- **Powerlong Commercial Management ("Powerlong CM" or the "Company") acquired 60% interest in Zhejiang Xinghui.** As at 6 Jul. 2020, Zhejiang Xinghui had 14 retail commercial projects under management with a total GFA of approximately 890,000 sq.m (including car parks). We expect financial results of Zhejiang Xinghui to be consolidated into the Company's financial statements in 2H2020. We anticipate that the Company will actively seek acquisition opportunities in the future but mainly focus on retail commercial property management companies.
- **A new CEO has been appointed.** Mr. Chen Deli was appointed as the Company's CEO and Executive Director in Jun. 2020. His rich experience and expertise in commercial property operation will further strengthen the senior management team of Powerlong CM as a whole.
- **We forecast the Company's total revenue and shareholders' net profit to grow at a CAGR of 25.5% and 44.1% during 2020-2022, respectively.** Riding on continued scale expansion, the Company's total revenue is expected to increase YoY by 21.6%/ 27.7%/ 27.4% in 2020-2022, respectively. Alongside forecasted steady increase in total revenue and great improvement in profit margins, shareholders' net profit is expected to grow YoY by 56.1%/ 41.2%/ 35.9% in 2020-2022, respectively.
- **Special focus on commercial property management is the key growth driver.** The Company is expected to maintain its leading position in commercial operations and management in the YRD region in the future. **We initiate our coverage on Powerlong CM with a TP of HK\$29.80 per share and an investment rating of "Accumulate".** The target price represents 58.4x/ 43.0x/ 31.6x 2020-2022 PER.
- **宝龙商业（“公司”）收购了浙江星汇 60% 的权益。**截至 2020 年 7 月 6 日，浙江星汇的在管零售商业项目有 14 个，包含停车位在内的在管建筑面积达到约 89 万平方米。我们预计浙江星汇的财务业绩将在 2020 年下半年并入公司的财务报表。我们预计公司在未来将积极寻求收购机会但将主要关注零售商业物业的管理公司。
- **任命新的 CEO。**陈德力先生在 2020 年 6 月被任命为公司的执行董事以及首席执行官。他在商业运营方面的丰富经验与专长预计将进一步提升公司高级管理团队的整体实力。
- **我们预测公司的总收入和股东净利将于 2020 至 2022 年分别以 25.5% 和 44.1% 的年复合增长率增长。**基于持续的规模扩张，公司的总收入预计将在 2020 至 2022 年分别同比增长 21.6%/ 27.7%/ 27.4%。伴随预测总收入的稳健增长和利润率的大幅提升，股东净利预计将在 2020 至 2022 年分别同比增长 56.1%/ 41.2%/ 35.9%。
- **对商业物管的特别聚焦是关键的增长动力。**公司预计将在未来维持长三角商业物管和商业运营的领先地位。**我们首次覆盖宝龙商业并给予每股 29.80 港元的目标价以及“收集”的投资评级。**目标价分别相当于 58.4 倍/ 43.0 倍/ 31.6 倍 2020-2022 年市盈率。

Rating:

Accumulate
Initial

评级:

收集 (首次覆盖)

6-18m TP 目标价:

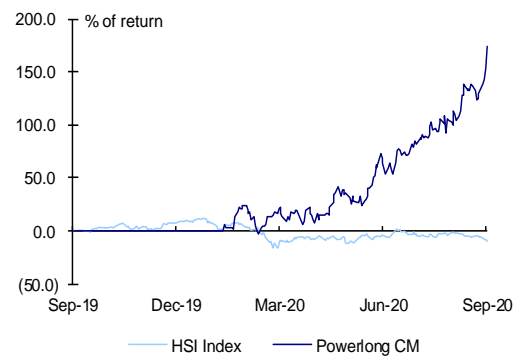
HK\$29.80

Share price 股价:

HK\$25.550

Stock performance

股价表现



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	2.9	49.1	n.a.
Rel. % to HS Index 相对恒指变动 %	11.7	55.0	n.a.
Avg. share price (HK\$) 平均股价 (港元)	21.5	18.8	n.a.

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(△%)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2018A	1,200	133	0.329	69.6	70.2	0.383	60.3	0.000	0.0	81.6
2019A	1,620	179	0.440	33.7	53.4	2.645	8.9	0.172	0.7	19.7
2020F	1,970	279	0.450	2.3	51.5	3.529	6.6	0.179	0.8	14.8
2021F	2,516	394	0.611	35.8	37.9	4.371	5.3	0.253	1.1	16.0
2022F	3,206	535	0.830	35.8	27.9	4.978	4.7	0.344	1.5	18.4

Shares in issue (m) 总股数 (m)	621.5	Major shareholder 大股东	Powerlong Real Estate	65.2%
Market cap. (HK\$ m) 市值 (HK\$ m)	16,345.5	Free float (%) 自由流通比率 (%)		27.6
3 month average vol. 3 个月平均成交股数 ('000)	1,580.2	FY20 Net gearing (%) FY20 净负债/股东资金 (%)		Net Cash
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	29.850 / 9.050	FY20 Est. NAV (HK\$) FY20 每股估值 (港元)		33.2

Source: the Company, Guotai Junan International.

See the last page for disclaimer

Page 1 of 15

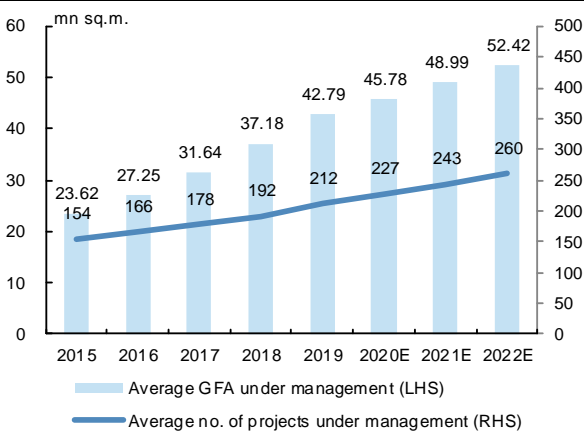
Property Management Industry in China

The property management industry in China is highly fragmented and competitive. According to China Index Academy (中国指数研究院) (CIA), in 2019, approximately 130,000 service providers were in operation in the property management industry. We are of the view that the property management industry has relatively low barriers to entry, which enables small-scale property management companies to compete with medium and large property management companies. Core services provided mainly include cleaning services, security services, greening services, repair and maintenance services, public area maintenance, etc. It is also very common for property management service providers to sub-contract some services to third-party contractors.

The management scale of the top 100 property management companies experienced fast growth during 2015-2019. After decades of development of the property management industry, some of the top 100 property management companies have sped up innovation of their services and have expanded business scale. According to CIA, the average GFA under management of the top 100 property management companies increased from 23.62 mn sq.m in 2015 to 42.79 mn sq.m in 2019, representing a CAGR of 16.0%. CIA estimates that the average GFA under management of the top 100 property management companies will increase to 52.42 mn sq.m in 2022, representing a CAGR of 7.0% during 2019-2022.

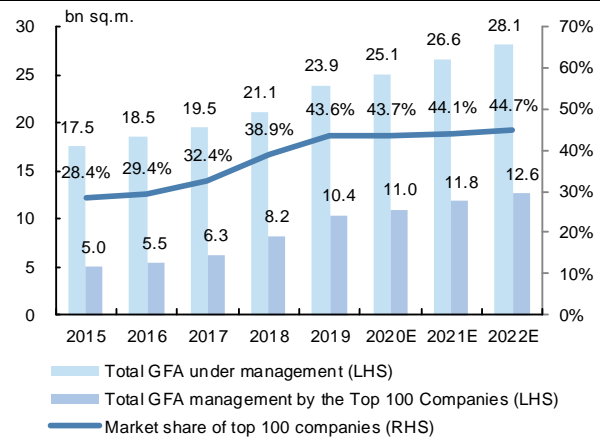
The market is becoming increasingly concentrated. In the scattered and competitive property management industry, large-scale property management companies are actively improving geographical layout and are accelerating expansion to increase market share and achieve better results of operations, primarily through organic growth and mergers and acquisitions. According to CIA, the market share of the top 100 property management companies increased from 28.4% in 2015 to 43.6% in 2019. Market share of the top 10 property management companies increased from 7.6% in 2015 to 9.2% in 2019.

Figure 1: Average GFA under Management and Average Number of Properties of the Top 100 Property Management Companies in China



Source: China Index Academy.

Figure 2: Total GFA under Management and Market Share of the Top 100 Property Management Companies in China



Source: China Index Academy.

The average revenue amount of the top 100 property management companies experienced fast growth during 2015-2019. Driven by organic growth and external acquisitions, revenue from property management services registered steady growth. According to CIA, average total revenue of the top 100 property management companies increased from RMB540.8 mn in 2015 to RMB1,040.2 mn in 2019, representing a CAGR of 17.8%. In 2019, average revenue from core management services of the top 100 property management companies amounted to RMB817.0 mn, which accounted for 78.6% of average total revenue.

Many property management companies developed value-added services to further expand business scope. Value-added services (VAS) mainly include (i) VAS to non-property owners; and (ii) community VAS. VAS to non-property owners mainly consists of sales assistance services, pre-delivery cleaning, repair and inspection services, preliminary planning and design consultancy services and other tailored services. Community VAS primarily consists of home cleaning services, shopping services, home decoration services, common area management services, property agency services, travel agency services, etc. According to CIA, average revenue amount of the top 100 property management companies from VAS increased at a CAGR of 25.3% during 2015-2019.

Property management companies diversified their portfolio of properties under management. Among the properties under management, residential properties accounted for the largest share in terms of total GFA under management. According to CIA, residential properties, offices and commercial properties accounted for 68.88%, 8.40% and 6.63%, respectively, of total GFA under management as at the end of 2019. Many property management companies in China have also sought to manage other types of properties, such as public properties, industrial parks, schools and hospitals.

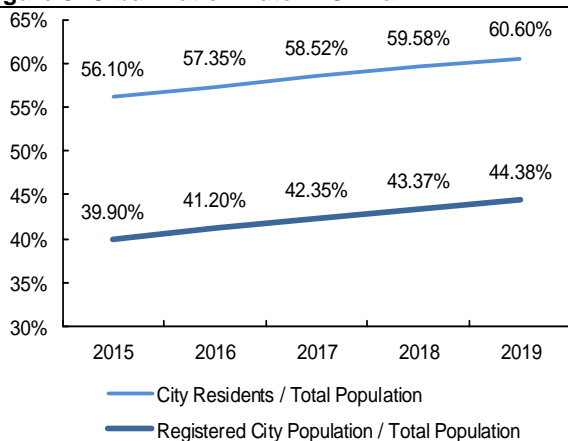
Growth in per capita disposable income creates demand for quality property management services. According to the National Bureau of Statistics of China, per capita disposable income of urban residents in China increased from RMB28,844 in 2014 to RMB42,359 in 2019, representing a CAGR of 8.0%. Steady growth of the Chinese economy has created a larger share of new middle-class families. We believe that middle-class families have strong purchasing power and will be willing to pay a premium for quality services. In aggregate, we expect that more and more Chinese consumers will demand better living standards, which include high-quality basic property management services, as well as diversified value-added services.

Continued urbanization is the key growth driver for the development of the property management industry. Different from rural residents, the majority of city residents live in residential communities managed by property management companies. Continued urbanization is expected to further increase the number of city residents and create demand for residential properties. Moreover, population inflow towards a city will also create demand for office buildings, industrial parks and local support facilities such as hotels, shopping malls, schools and hospitals, which also require professional property management companies to participate in daily operations and management. Thus, continued urbanization is expected to further expand the market size of the property management industry in China.

Urbanization trend continued alongside household registration reform. According to the National Bureau of Statistics of China and the National Development and Reform Commission, city residents accounted for 60.60% of the total population in 2019, while city residents with valid city household registration only accounted for 44.38% of the total population in 2019. That is, a considerable amount of individuals living and working in cities have registered as rural residents. In 2020, the central government is aiming to encourage 100 million residents to obtain city household registration. We expect that many cities in China will cancel or partially cancel household registration restrictions by the end of 2020. In aggregate, household registration reform is expected to encourage a large number of individuals to migrate into cities, thus creating strong purchasing demand in local property markets.

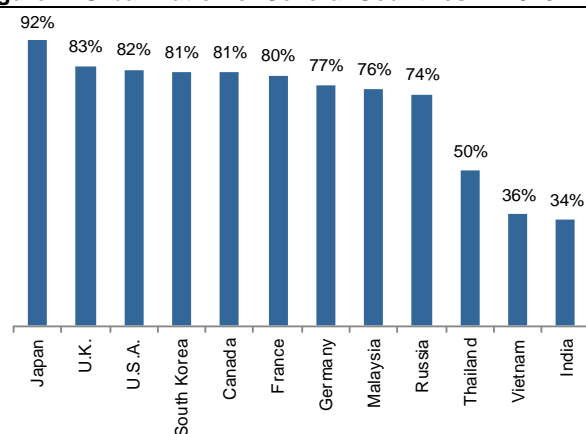
There is still room for the urbanization rate to further increase in China. According to the United Nations and the World Bank, the average urbanization rate in high-income, middle-income and low-income countries around the globe was 81.3%, 52.5% and 32.6%, respectively. The current urbanization rate in China has surpassed the average level of middle-income countries, but is still lower than the average level of high-income countries. Moreover, urbanization rates of some developing countries are higher than that of China, such as Russia and Malaysia. Considering accelerated household registration reform and continued economic development, we think that the urbanization rate in China is still far from peaking.

Figure 3: Urbanization Rate in China



Source: the National Bureau of Statistics of China, the NDRC.

Figure 4: Urbanization of Several Countries in 2018



Source: the United Nations, the World Bank.

Company Overview

Company Background

Powerlong Commercial Management Holdings Limited ("Powerlong CM" or the "Company") is a leading commercial operational service provider in China. The Company is principally engaged in (i) commercial operations services; and (ii) residential property management services. The Company provides commercial operational services under four brands, namely the "Powerlong One Mall" (宝龙一城), the "Powerlong City" (宝龙城), the "Powerlong Plaza" (宝龙广场) and the "Powerlong Land" (宝龙天地). The Company also provides property management services for residential properties, office buildings and serviced apartments. On 30 Dec. 2019, the Company was successfully spun off from its parent group and separately listed on the main board of Hong Kong Stock Exchange. On 29 May 2020, Powerlong CM was included as a constituent stock of the MSCI China Small Cap Index.

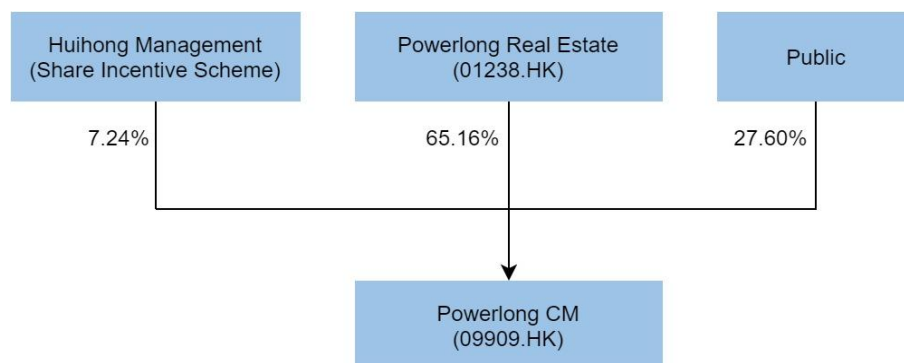
Table 1: The Company's Milestones

Year	Event
1993	Commencement of provision of residential property management services with the establishment of Xiamen Hualong Property Management.
2007	Commencement of provision of commercial operational services with the establishment of Shanghai Powerlong Commercial and the Company's first managed retail commercial property in Fuzhou commenced operation.
2013	First managed retail commercial property in Shanghai commenced operation.
2014	Commencement of provision of commercial operational services to properties owned by independent third parties and the Company's first managed retail commercial property in Hangzhou commenced operation.
2015	Launch of first generation digital platform designed for consumer use, namely "Powerlong Didika" (宝龙滴滴卡) mobile application.
2016	Two managed retail commercial properties under the brand "Powerlong City" (宝龙城) commenced operation.
2018	First managed retail commercial property under the brand "Powerlong One Mall" (宝龙一城) commenced operation. "Creativity lab" (创想实验室) was established for innovating, experimenting and implementing the Company's digitalization efforts. Strategic relationship was formed with Shanghai Teng Wen Network Technology Co., Ltd. (上海腾闻网络科技有限公司) in order to capitalize on its strong technological expertise and support which will allow the Company to provide its customers with better integrated online and offline services.
2019	Listed on the main board of Hong Kong Stock Exchange on 30 Dec. 2019, becoming the first service provider in commercial management and operation on the Hong Kong stock market that operated based on an asset light model.

Source: the Company, Bloomberg, Guotai Junan International

Powerlong CM's controlling shareholder is Powerlong Real Estate Holdings Limited (the "Parent Group" or "Powerlong Real Estate"). The Parent Group is a leading large-scale and multi-functional commercial real estate developer in China and is also listed on the main board of the Hong Kong Stock Exchange (Stock code: 01238.HK). Powerlong Real Estate's development and investment projects demonstrated a strategic layout of focusing on Shanghai and intensive development in the Yangtze River Delta (YRD) region. Powerlong Real Estate also expanded its business operation into the Bohai Rim region, Western Taiwan Strait region, Central & Western China region, Hainan province and the Greater Bay Area in recent years. Compared with other property developers, Powerlong Real Estate is more specialized in developing and operating complex property projects consisting of both residential and commercial properties.

Figure 5: Corporate Shareholders Structure



Source: the Company, Guotai Junan International.

The Parent Group achieved strong contracted sales growth. Powerlong Real Estate's contracted sales amount surged from RMB14.31 bn in 2015 to RMB60.35 bn in 2019, representing a CAGR of 43.3%. Powerlong Real Estate's contracted sales GFA also increased from 1.532 million sq.m in 2015 to 3.768 million in 2019, representing a CAGR of 25.2%. In 2019, commercial properties and residential properties generated 23% and 77% of total contracted sales amount, respectively. In addition, 84.9% of contracted sales amount was derived from the YRD region. The Company's 2020 contracted sales target is set at RMB75.0 bn, which is 24.3% higher than the contracted sales amount in 2019. As at the end of Aug. 2020, the Company achieved 61.6% of its full-year sales target.

Table 2: Contracted Sales of Powerlong Real Estate

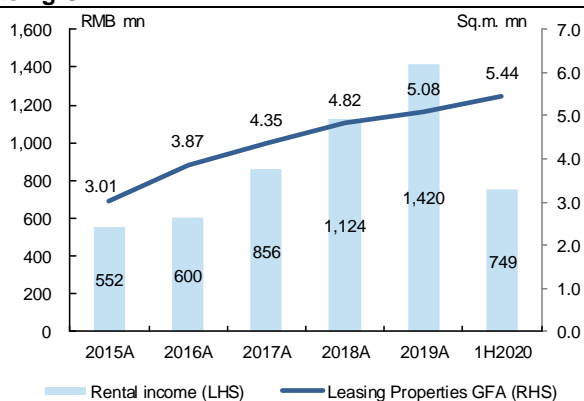
	2015	2016	2017	2018	2019	1-8M2020	CAGR 2015-2019
Contracted sales amount (RMB bn)	14.31	17.64	20.88	41.04	60.35	46.22	43.3%
YoY Growth	34.3%	23.3%	18.4%	96.5%	47.1%	15.7%	n.a.
Contracted sales GFA (sq.m. mn)	1.532	1.468	1.562	2.822	3.768	3.015	25.2%
YoY Growth	26.8%	(4.1%)	6.4%	80.6%	33.5%	23.6%	n.a.
Contracted sales ASP (RMB per sq.m.)	9,337	12,014	13,369	14,543	16,018	15,329	14.4%

Source: the Company, Bloomberg, Guotai Junan International

The Parent Group also recorded steady rental income growth. Besides developing properties for sale, the Company also develops commercial properties for lease. As at the end of 1H2020, Powerlong Real Estate had an aggregate GFA of 5,440,516 sq.m held as investment properties, representing an increase of 7.2% as compared to that as at the end of 2019. As at the end of 1H2020, the Parent Group held and managed 42 commercial plazas and managed 3 asset-light projects. The Parent Group's rental income increased from RMB552 mn in 2015 to RMB1,420 mn in 2019, representing a CAGR of 26.6%. During 1H2020, rental income from investment properties still increased by 18.0% YoY to RMB749 mn despite that the Parent Group offered rent cuts/ discounts to tenants affected by the COVID-19 pandemic.

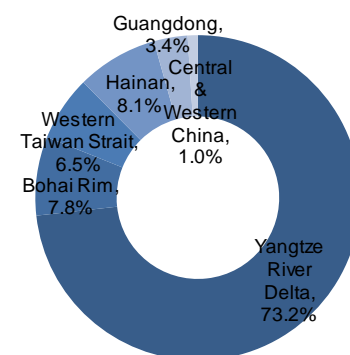
The Parent Group owns abundant quality land bank across China. As at the end of 1H2020, Powerlong Real Estate's land bank had a total GFA of 28,588,727 sq.m, of which, tier-1 cities (3.8%) and tier-2 cities (57.7%) accounted for 61.5% of the Company's total land bank GFA. Land bank in the YRD region accounted for 73.2% of total land bank in terms of GFA. As at the end of 1H2020, total saleable resources value of Powerlong Real Estate's land bank amounted to approximately RMB385.8 bn. According to the Parent Group's development plan, 17.9% of the land bank will become investment properties for lease and 82.1% of the land bank will be sold to customers in the future.

Figure 6: Powerlong Real Estate's Rental Income and Leasing GFA



Source: the Company, Guotai Junan International.

Figure 7: Powerlong Real Estate's Land Bank GFA by Region as at 30 Jun. 2020



Source: the Company, Guotai Junan International.

Projects developed by the Parent Group and its joint ventures were the major source of Powerlong CM's contracted GFA during 2016-1H2019. As for commercial operations services, contracted GFA sourced from independent third parties contributed only 3.9%, 5.2%, 4.8% and 4.5% of total contracted GFA in 2016, 2017, 2018 and 1H2020, respectively. During the same period, contracted GFA sourced from Powerlong Group and its joint ventures (established by Powerlong Group and independent third parties) accounted for more than 90% of total contracted GFA. As for residential property management services, contracted GFA was only sourced from Powerlong Group and its joint ventures during 2016-1H2019. In aggregate, the Company had relatively high business reliance on the Parent Group during 2016-1H2019.

Table 3: The Company's Contracted GFA for Commercial Operation Services

(sq.m. '000)	2016A	2017A	2018A	1H2019A
<u>Contracted GFA sourced from</u>				
- Powerlong Group	5,546	5,705	5,999	6,602
- Joint ventures	395	395	585	585
- Independent Third Parties	244	335	335	335
Total	6,185	6,435	6,919	7,522
<u>Percentage in total contracted GFA</u>				
- Powerlong Group	89.7%	88.7%	86.7%	87.8%
- Joint ventures	6.4%	6.1%	8.5%	7.8%
- Independent third parties	3.9%	5.2%	4.8%	4.5%
Total	100.0%	100.0%	100.0%	100.0%

Source: the Company, Guotai Junan International.

Table 4: The Company's Contracted GFA for Residential Property Management Services

(sq.m. '000)	2016A	2017A	2018A	1H2019A
<u>Contracted GFA sourced from</u>				
- Powerlong Group	9,610	11,524	14,016	16,082
- Joint ventures	324	467	776	988
Total	9,934	11,991	14,792	17,070
<u>Percentage in total contracted GFA</u>				
- Powerlong Group	96.7%	96.1%	94.8%	94.2%
- Joint ventures	3.3%	3.9%	5.2%	5.8%
Total	100.0%	100.0%	100.0%	100.0%

Source: the Company, Guotai Junan International.

Business

Powerlong CM provides a wide range of commercial operations services to its customers. The Company's Commercial operations services primarily include (i) market research and positioning, tenant sourcing and opening preparation services to property developers or property owners during the preparation stage before the opening of a retail commercial property; (ii) commercial operations and management services to property owners or tenants during the operation stage of a retail commercial property; and (iii) property leasing services with respect to units located within the shopping streets and shopping malls. During 2016-1H2020, commercial operational services contributed over 80% of total revenue and remained as the major revenue contributor. The Company's commercial operations services revenue increased from RMB628 mn in 2016 to RMB1,335 mn in 2019, representing a CAGR of 25.4%.

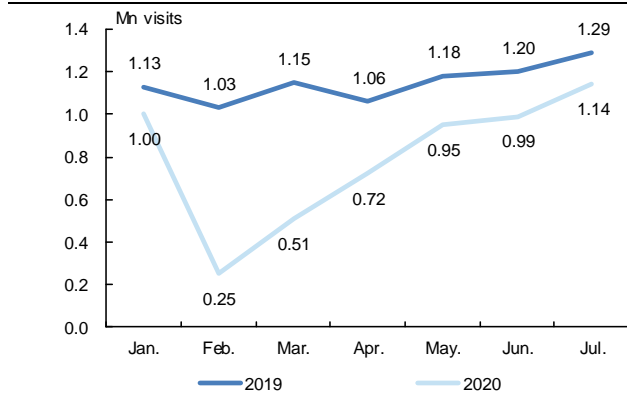
Powerlong CM also provides various residential property management services to its customers. The Company's residential property management services primarily include (i) pre-sale management services to property developers during their pre-sale activities; (ii) property management services to property owners or property owners' associations at the post-delivery stages; and (iii) other value-added services to property owners, tenants or residents of managed properties, such as pre-delivery preparation and trash handling services, common area, advertising space and car park management services. The Company's residential property management services revenue increased from RMB124 mn in 2016 to RMB285 mn in 2019, representing a CAGR of 31.9%.

Performance of shopping mall operations bottomed out after Feb. 2020. Both the average foot traffic in same store and average revenue from same store plunged in Feb. 2020, mainly due to the COVID-19 pandemic. Since Mar. 2020, the aforesaid two key indicators have been recovering month by month. Average occupancy rate in the Company's shopping malls were 89.4% and 87.1% in 2019 and 1H2020, respectively. We are of the view that the negative impact from the COVID-19 pandemic is limited and shopping mall operation will finally resume to normal.

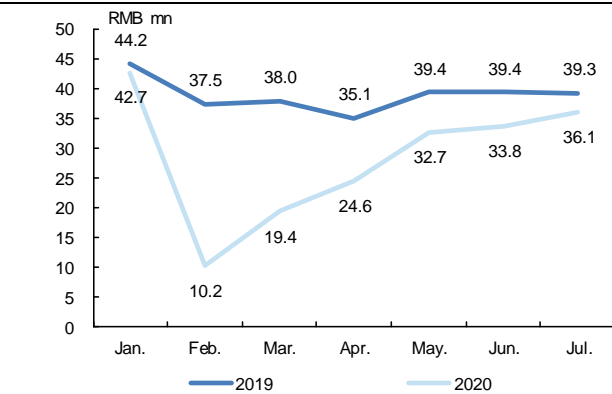
Table 5: The Company's Average Occupancy Rate

Brand	Average Occupancy Rate as of		Comparable GFA Under Management (mn sq.m.)
	31 December 2019	30 June 2020	
Powerlong One Mall (宝龙一城)	95.2%	92.6%	0.171
Powerlong City (宝龙城)	91.3%	90.7%	0.437
Powerlong Plaza (宝龙广场)	89.0%	85.4%	5.990
Powerlong Land (宝龙天地)	90.1%	87.9%	0.384
Total	89.4%	87.1%	6.982

Source: the Company, Guotai Junan International.

Figure 8: The Company's Average Foot Traffic in Same Store


Source: the Company, Guotai Junan International.

Figure 9: The Company's Average Revenue from Same Store


Source: the Company, Guotai Junan International.

The Parent Group's new 5-year strategic plan for 2021-2025 is expected to drive the development of Powerlong CM. On 13 Jul. 2020, the CEO of Powerlong Real Estate Mr. Hoi Wa Fong released the "New Five-Year Plan (2021-2025)" during Powerlong Group's work conference for 1H2020. Within the next five years, the Parent Group will strive to achieve the goal of (i) total no. of self-owned shopping malls exceeding 100, (ii) core profit exceeding RMB10 bn, and (iii) attributable annual contracted sales amount exceeding RMB100 bn, etc. We think that the new strategic plan not only reveals the Parent Group's ambition in future business expansion, but also depicts a clear picture of the development roadmap. We believe that this new strategic plan will also support the development of Powerlong CM, considering the Company's solid cooperation relationship with the Parent Group. The Company is expected to provide residential property management services and commercial operational services to the majority of properties developed by the Parent Group.

Major Changes in Senior Management and Major Acquisitions

A new CEO has been appointed and has been awarded with the Company's shares. The board of directors of Powerlong CM announced that due to work allocation, with effect from 1 Jun. 2020, Mr. Zhang Yunfeng (张云峰) has been re-designated from the position of CEO to CFO. At the same time, Mr. Chen Deli (陈德力) has been appointed as (i) the CEO of Powerlong CM, and (ii) the Associate President of Powerlong Real Estate, also with effect from 1 Jun. 2020. Later on, Mr. Chen Deli was appointed as an Executive Director of the Company with effect from 15 Jun. 2020. Mr. Chen Deli, aged 46, was a director and co-president of Seazen Holdings (新城控股), a company listed on the Shanghai Stock Exchange (stock code: 601155.SH) during the period from Aug. 2016 to Mar. 2020. From Aug. 2010 to Jul. 2016, Mr. Chen Deli served in various senior management roles in Dalian Wanda (大连万达). Mr. Chen Deli has entered into a service contract with the Company for an initial term of 3 years commencing from 15 Jun. 2020 and is entitled to a remuneration of RMB240,000 per annum with bonus payable at the discretion of the board for his services as an Executive Director. We believe that his expertise in commercial property operations will further strengthen the senior management team of Powerlong CM. On 10 Sep. 2020, the Company announced to issue 11,250,000 new shares to Mr. Chen Deli at a subscription price of HK\$24.30 per share. At the same time, the Company further proposed to issue and award another 11,250,000 new shares to Mr. Chen Deli. As a result, Mr. Chen Deli is expected to hold 3.49% of the enlarged no. of shares of Powerlong CM (644,000,000 shares) upon completion of the aforesaid share subscription and grant of awarded shares. In aggregate, we believe that Mr. Chen Deli's share subscription of the Company's shares and the proposed share award scheme could promote motivation for his role as a CEO and further tighten his relationship with Powerlong CM in the medium to long term.

Powerlong CM acquired 60% of interest in a third-party commercial property management company. On 3 Jul. 2020, Powerlong CM entered into an investment agreement with the shareholders of Zhejiang Xinghui Commercial Management Company Limited (浙江星匯商業管理有限公司) ("Zhejiang Xinghui"), pursuant to which the Company acquired 60% equity interest in Zhejiang Xinghui at an investment cost of approximately RMB40.55 mn. The valuation of Zhejiang Xinghui was RMB60 mn during the acquisition, representing a static PE ratio of 10 times the undertaken net profit excluding extraordinary profit or loss attributable to the parent company in 2020 pursuant to the investment agreement. Zhejiang Xinghui is principally engaged in retail commercial property operations and management. As at 6 Jul. 2020, Zhejiang Xinghui had 14 retail commercial projects under management, with a total GFA of approximately 890,000 sq.m (including car parks). Furthermore, Zhejiang Xinghui undertook a pledge to the Company that during the following years, the annual net profit excluding extraordinary profit or loss attributable to the parent company would be not less than: RMB6.00 mn for year 2020; RMB7.68 mn for year 2021; RMB9.83 mn for year 2022; RMB12.58 mn for year 2023; and RMB16.11 mn for year 2024. The directors of the Company consider that this acquisition has been made on normal commercial terms and that such terms are fair and reasonable and that the acquisition is in the interest of the Company and its shareholders as a whole. Upon the completion of this acquisition, the Company is expected to continue expanding its business by leveraging the existing team of Zhejiang Xinghui and also consolidate the financial results of Zhejiang Xinghui to the Company's financial statements. We anticipate that the Company will actively seek acquisition opportunities in the future to further expand its property management portfolio. Considering the Company's deep rooted development of retail and commercial property management, we project that the Company will mainly strive on acquiring retail commercial property management companies.

Major Risk Factors

- 1) Future revenue growth might miss expectations due to less-than-expected GFA under management and lower-than-expected average management fee per sq.m per month;
- 2) Future profit margins might miss expectations due to higher-than-expected cost of sales and expenses;
- 3) Results of commercial operations services is highly correlated with consumer confidence and the retail market in China, which might be adversely affected during economic recessions.

Financial Analysis

We expect revenue derived from commercial operations services to increase at a CAGR of 25.4% during 2019-2022. In 1H2020, revenue from commercial operations services increased by 12.8% YoY to RMB700.4 mn and accounted for 80.6% of total revenue. As at 30 Jun. 2020, GFA under management for commercial operations services was maintained at approximately 7.0 mn sq.m, while no. of managed retail properties was maintained at 51. As at the same date, contracted GFA for commercial operations services reached 9.9 mn sq.m. We believe a large portion of the contracted GFA is still under development, but the Company could still provide some pre-completion services such as market research and positioning, tenant sourcing and opening preparation services to its customers in 2020-2022. The Company's commercial projects pipeline for 2H2020 includes, (i) 11 projects sourced from the Parent Group and its related parties, and (ii) 2 projects sourced from independent third parties. Moreover, we expect GFA currently managed by Zhejiang Xinghui to be combined into the Company's total GFA under management upon successful acquisition in 2H2020. In 2021-2022, we anticipate that the Company's managed retail properties portfolio will continue to expand, riding on large-scale delivery of complex property projects from the Parent Group and strategic external acquisitions. Thus, we project that GFA under management for commercial operations services to increase at a CAGR of 26.1% from 7.0 mn sq.m as at the end of 1H2020 to 14.0 mn sq.m as at the end of 2022. Moreover, average management fee per GFA for retail properties is also expected to increase steadily as more and more commercial projects transform from early growth stages into mature stages in 2020-2022. In aggregate, we expect revenue from commercial operational services to amount to RMB1,587.5/ RMB2,042.1/ RMB2,631.4 in 2020-2022, respectively.

We expect revenue derived from residential property management services to increase at a CAGR of 26.2% during 2019-2022. In 1H2020, revenue from residential property management services increased by 31.5% YoY to RMB168.2 mn and accounted for 19.4% of total revenue. As at 30 Jun. 2020, GFA under management for residential property management services reached 11.6 mn sq.m, while contracted GFA for residential property management services reached 19.9 mn sq.m. We anticipate that future expansion in GFA under management for residential property management services will be mainly driven by the delivery of residential properties from the Parent Group. In 2019, the Parent Group's contracted sales GFA from residential properties amounted to 3.051 mn sq.m, accounting for 81.0% of total contracted sales GFA. We expect GFA under management for residential property management services to increase at a CAGR of 13.9% from 11.5 mn sq.m as at the end of 2019 to 17.0 mn sq.m as at the end of 2022. Average management fee per GFA for residential properties is expected to grow at a CAGR of 5.0% during 2019-2022. In aggregate, we expect residential property management services to amount to RMB382.4 mn/ RMB473.7 mn/ RMB574.1 mn in 2020-2022, respectively.

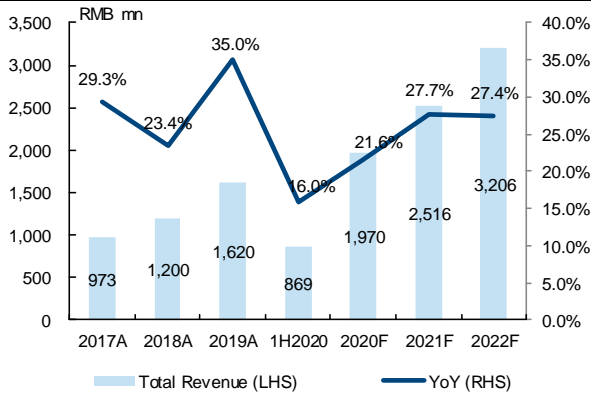
Table 6: The Company's Key Operation Data and Revenue Breakdown in 2017-2022

	2017A	2018A	2019A	1H2020	2020F	2021F	2022F	CAGR 2019-2022
<u>GFA under management (sq.m. million)</u>								
Commercial operational services	5.9	6.4	7.0	7.0	9.0	11.5	14.0	26.1%
Residential property management services	9.7	10.2	11.5	11.6	13.0	15.0	17.0	13.9%
Total	15.7	16.6	18.5	18.6	22.0	26.5	31.0	18.8%
<u>GFA under management proportion (%)</u>								
Commercial operational services	38.0	38.4	37.8	37.5	40.9	43.4	45.2	n.a.
Residential property management services	62.0	61.6	62.2	62.5	59.1	56.6	54.8	n.a.
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	n.a.

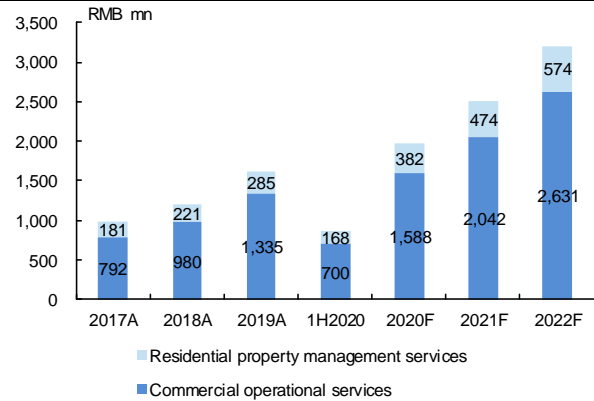
Source: the Company, Guotai Junan International.

We expect total revenue to increase from RMB1,620.5 mn in 2019 to RMB3,205.5 mn in 2022, at a CAGR of 25.5%. The Company's total revenue increased from RMB973.0 mn in 2017 to RMB1,620.5 mn in 2019, representing a CAGR of 29.1%. During 2020-2022, we expect revenue from commercial operations services to increase YoY by 18.9%/ 28.6%/ 28.9%, respectively; and revenue from residential property management services to increase YoY by 34.0%/ 23.9%/ 21.2%, respectively. Overall, we expect the Company's total revenue to grow YoY by 21.6%/ 27.7%/ 27.4% during 2020-2022, respectively. We expect commercial operational services to remain as the major revenue contributor in 2020-2022.

Figure 10: The Company's Total Revenue and YoY Growth **Figure 11: The Company's Segment Revenue**



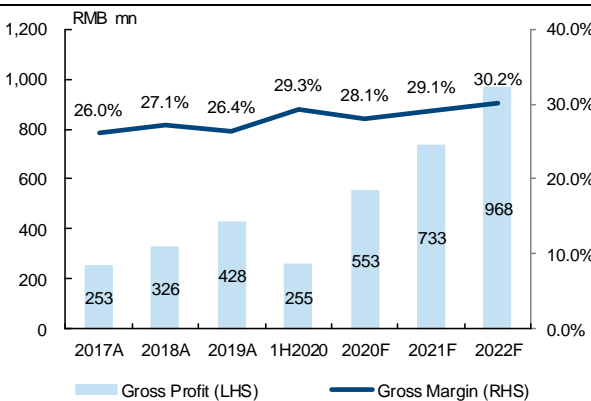
Source: the Company.



Source: the Company.

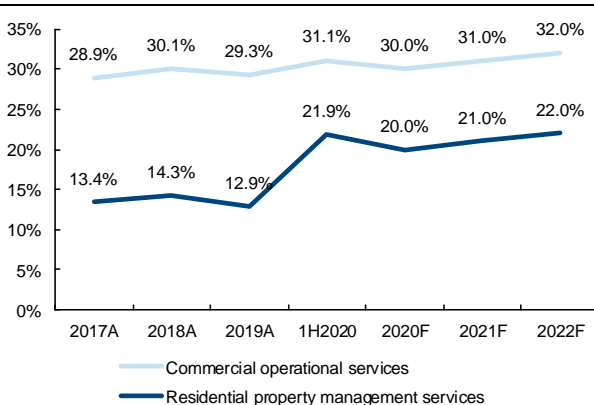
We expect overall gross profit margin to be 28.1%/ 29.1%/ 30.2% in 2020-2022, respectively. In 1H2020, gross margin for commercial operational services improved by 1.8 pts YoY to 31.1%, while gross margin for residential property management services also surged by 9.5 pts YoY to 21.9%. The significant increase in gross margin for residential property management services in 1H2020 was mainly due to continued increase in GFA of residential properties under management and the increase in the no. of contracts with residents, especially for other value-added services. As a result, overall gross margin improved by 2.9 pts YoY to 29.3% in 1H2020. We expect gross margin for commercial operational services to increase from 29.3% in 2019 to 32.0% in 2022, riding on increased profitability of market research and positioning, tenant sourcing and opening preparation services as well as commercial operation service during the operation stage but partially offset by newly acquired projects with lower profit margins. We expect gross margin for residential property management services to increase dramatically from 12.9% in 2019 to 22.0% in 2022, alongside projected increase in revenue proportion of other value-added services and pre-sale management services with relatively high gross margins. We are of the view that property management industry is a labor-intensive industry and the overall profitability of property management companies in China is under downward pressure. However, development of value-added services and new technologies could partially offset the increase in labor costs. In aggregate, we expect the Company's total gross profit to amount to RMB552.7 mn/ RMB732.5 mn/ RMB968.4 mn in 2020-2022, respectively.

Figure 12: The Company's Total Gross Profit and Gross Profit Margin



Source: the Company.

Figure 13: The Company's Segment Gross Margin



Source: the Company.

Operating expenses to revenue ratios are expected to decrease. The Company's operating expenses consists of selling and marketing expenses and administrative expenses. In 1H2020, selling and marketing expenses to revenue ratio dropped by 1.2 pts YoY to only 1.1%, while administrative expenses to revenue ratio also decreased by 1.0 pts YoY to 5.3%. We expect that this low level of operating expenses will not continue in 2H2020. We project that operating expenses to revenue ratios will gradually decrease in 2020-2022, riding on effective cost control measures and greater economies of scale.

Table 7: The Company's Operating Expenses to Revenue Ratio

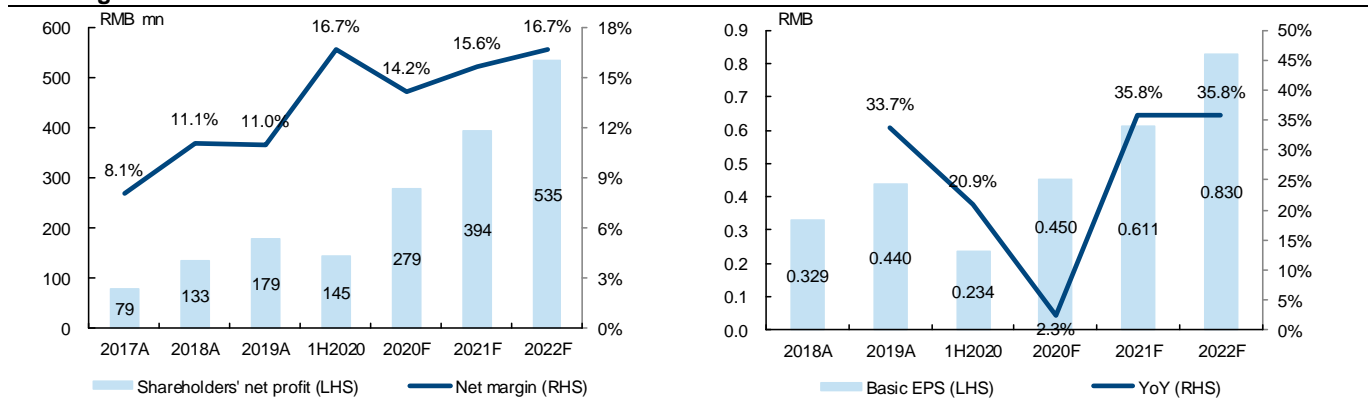
	2017A	2018A	2019A	1H2020	2020F	2021F	2022F
Selling and marketing expenses / total revenue	2.0%	2.6%	2.6%	1.1%	2.0%	1.9%	1.8%
Administrative expenses / total revenue	9.6%	6.7%	7.2%	5.3%	6.2%	6.1%	6.0%

Source: the Company, Guotai Junan International

See the last page for disclaimer

We expect shareholders' net profit to increase at a CAGR of 44.1% during 2019-2022. Shareholders' net profit increased from RMB78.6 mn in 2017 to RMB178.6 mn in 2019, at a CAGR of 50.8%. In 1H2020, shareholders' net profit surged by 66.3% YoY to RMB144.9 mn, representing a net margin of 16.7%. Alongside forecasted strong increase in total revenue and improvement in gross profit margin, we expect profit for the year to increase RMB281.6 mn/ RMB399.5 mn/ RMB545.7 mn in 2020-2022, respectively. In 2017-2019, the Company did not record any net profit attributable to non-controlling interests. The Company acquired 60% interest in Zhejiang Xinghui in Jul. 2020. We anticipate that the financial results of Zhejiang Xinghui will be consolidated into the Company's financial statements from 2H2020. Future acquisition of third-party property management companies might also create non-controlling interest. We expect net profit attributable to non-controlling interest to amount to RMB2.8 mn/ RMB6.0 mn/ RMB10.9 mn in 2020-2022, respectively. As a result, shareholders' net profit is expected to increase to RMB278.8 mn/ RMB393.6 mn/ RMB534.8 mn in 2020-2022, up 56.1%/ 41.2%/ 35.9%, respectively. In addition, we expect the Company's basic EPS to increase to RMB0.450/ RMB0.611/ RMB0.830 in 2020-2022, up 2.3%/ 35.8%/ 35.8%, respectively. The relatively low basic EPS YoY growth rate in 2020 is mainly a result of significant increase in weighted average no. of shares in 2020 compared to that in 2019 as a result of the Company's listing in Dec. 2019, full exercise of over-allotment option in Jan. 2020, as well as issue of new shares under share award scheme in Sep. 2020.

Figure 14: The Company's Shareholders' Net Profit and Figure 15: The Company's Earnings per Share Net Margin



Source: the Company, Guotai Junan International.

Source: the Company, Guotai Junan International.

We expect the Company to maintain a strong balance sheet with net cash position in 2020-2022. The Company's interest bearing debt decreased from RMB634.0 mn in 2018 to nil in 2019 and remained at nil in 1H2020. In 2020-2022, we anticipate that the Company will not borrow any new interest-bearing debt mainly due to its light-asset business model. We expect total cash balances to further increase in 2020-2022 alongside projected profit expansion and prudent acquisition activities. As a result, we expect net finance income in 2020-2022 due to increased interest income from cash deposits and limited interest costs on lease liabilities. In aggregate, we expect the Company to maintain strong balance sheet with net cash position in 2020-2022.

Table 8: The Company's Cash Balances, Total Debt and Leverage Ratios

	2017A	2018A	2019A	1H2020	2020F	2021F	2022F
Total cash balances (RMB mn)	114	1,040	2,616	2,950	3,315	3,918	4,365
Total interest-bearing debt (RMB mn)	388	634	0	0	0	0	0
Net gearing	284.2%	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Total liabilities / Total assets	94.5%	89.4%	48.7%	50.5%	46.7%	44.6%	43.7%

Source: the Company, Guotai Junan International.

Note: Total cash balances consists of both restricted cash and cash and cash equivalents. Total interest-bearing debt consists of both short-term and long-term borrowings.

We expect high dividend payout ratio in 2020-2022. The Company declared dividend of RMB103.3 mn for 2019 and RMB56.8 mn for 1H2020, representing 57.8% and 39.2% of the shareholders' net profit during the corresponding period, respectively. We expect dividend payout ratio to be maintained at relatively high levels of 40.0% in the coming years.

Table 9: The Company's Dividend Declared and Dividend Payout Ratio

	2019A	1H2020	2020F	2021F	2022F
Dividend declared (RMB mn)	103	57	112	157	214
Dividend payout ratio	57.8%	39.2%	40.0%	40.0%	40.0%

Source: the Company, Guotai Junan International.

Valuation

We believe that property management is highly defensive. In the first few months of 2020, the COVID-19 pandemic cast a shadow over the macro economy and the operation of many industries in China. However, we are of the view that the property management industry is more defensive compared to other industries because property management companies continue to provide services and charge management fees to clients. Many property management companies cooperated closely with local governments during the pandemic, drawing great attention from the media. We believe that governments will further deepen cooperation with local property management companies in order to achieve higher levels of community governance. Future industry policies will focus on promoting service standardization and long-term healthy development of the whole sector.

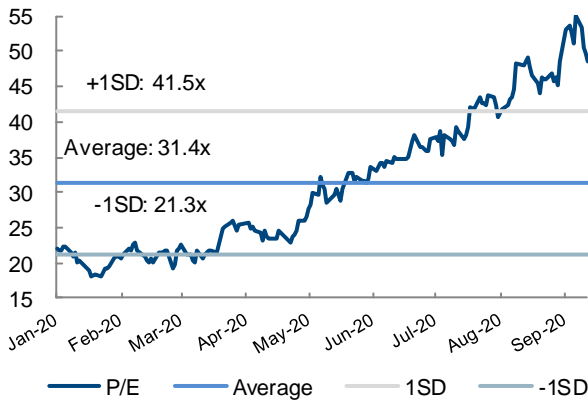
Special focus on commercial property management is the key growth driver. Different from residential property management, management fees of commercial properties are not restricted by government authorities in China. Moreover, the entry barrier of commercial property management is higher than that of residential property management, which reduces the intensity of competition. Compared to other property management companies focusing on residential properties, Powerlong CM has greater risk of exposure on commercial property operation and management. During the opening months of 2020, the operation performance of the Company's shopping malls under management was hit by the COVID-19 pandemic. However, we believe that the retail market and consumer confidence in China will finally regain growth momentum, which will drive further scale expansion of the Company's commercial operations business. In aggregate, we think the Company is quite unique among property management companies listed on the Hong Kong Stock Exchange due to its special focus on commercial and retail properties.

We initiate Powerlong CM with "Accumulate" investment rating. The Company acquired a third-party commercial property management company in Jul. 2020, marking the Company's first acquisition after listing. The Company's leading position in commercial operations and management in the YRD region is expected to continue in 2020-2022. Performance of shopping mall operations bottomed out after Feb. 2020. Shareholders' net profit is expected to grow at a fast pace during 2020-2022, amid the company's internal organic growth as well as external strategic acquisitions. In May 2020, the Company was included as a constituent stock of MSCI China Small Cap Index. Considering the Company's uniqueness on the stock market in Hong Kong, great growth momentum and relatively high margin of safety in the coming years, we think the Company deserves a premium in valuation compared to the average valuation level of industry peers. We set our target price at HK\$29.80, representing a 10.3% discount to its 2020E NAV of HK\$33.23 per share and 58.4x/ 43.0x/ 31.6x 2020-2022 PER, respectively. We initiate our coverage on Powerlong CM with an investment rating of "Accumulate".

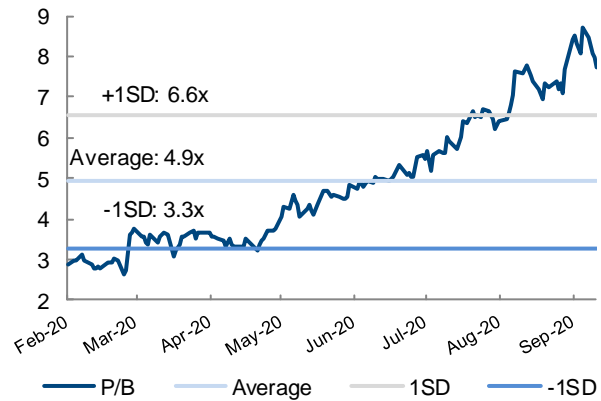
Table 10: Powerlong CM's DCF Analysis

Assumptions		DCF Calculation	
Risk Free Rate	0.69%	Sum of PV FCFF (RMB mn)	6,600
Market Return	10.13%	+ PV terminal value (RMB mn)	8,559
Market Risk Premium	9.44%	Enterprise value (RMB mn)	15,159
Beta	1.10	+ (Net debt)/Cash (RMB mn)	3,043
Cost of Equity	11.1%	Equity value (RMB mn)	18,202
After Tax Cost of Debt	3.6%	Assume HK\$/RMB	0.8813
E/(D+E)	100.0%		
WACC	11.1%	Equity value (HK\$ mn)	20,653
		Shares outstanding ('000)	621,500
Long Term Growth Rate	2.5%	NAV per share (HK\$)	33.23

Source: the Company, Guotai Junan International.

Figure 16: The Company's Forward P/E Ratio (Current Annual)


Source: Bloomberg, Guotai Junan International.

Figure 17: The Company's Forward P/B Ratio (Current Annual)


Source: Bloomberg, Guotai Junan International.

Table 11: Peers Comparison

Company	Stock code	Currency	Mkt Cap (HK\$ mn)	PE				PB				ROE(%)	D/Y(%)
				2019A	2020F	2021F	2022F	2019A	2020F	2021F	2022F	2020F	2020F
HK listed property management companies with major business in mainland China													
Country Garden Services Hold	06098 HK	HKD	136,589	69.6	48.1	34.0	24.9	22.3	15.8	11.6	8.5	35.9	0.6
A-Living Services Co Ltd-H	03319 HK	HKD	51,533	37.0	26.0	19.7	15.6	7.4	6.1	5.2	4.3	25.2	1.6
Poly Property Services Co Lt	06049 HK	HKD	34,113	44.9	41.6	30.7	23.0	5.8	5.2	4.6	4.0	13.0	0.7
Greentown Service Group Co L	02869 HK	HKD	29,695	47.9	36.9	28.8	22.6	8.4	5.1	4.6	4.0	15.9	1.1
Ever Sunshine Lifestyle Serv	01995 HK	HKD	24,889	90.1	54.6	35.5	23.8	17.8	10.4	8.6	6.9	21.5	0.5
China Overseas Property Hold	02669 HK	HKD	20,641	38.4	30.6	23.9	18.8	13.6	10.2	7.7	5.9	36.1	1.0
S-Enjoy Service Group Co Ltd	01755 HK	HKD	16,792	53.1	33.9	22.8	15.7	16.2	11.7	8.8	6.7	37.2	1.5
Powerlong Commercial Managem	09909 HK	HKD	16,345	52.7	48.1	33.1	24.6	8.9	7.7	6.7	5.8	15.7	1.1
Central China New Life Ltd	09983 HK	HKD	10,583	n.a.	23.2	16.2	12.2	n.a.	3.3	2.9	2.5	20.8	1.2
Times Neighborhood Holdings	09928 HK	HKD	9,088	62.5	33.4	19.5	10.6	8.4	5.4	4.5	2.4	19.5	0.8
Sichuan Languang Justbon -H	02606 HK	HKD	7,676	12.3	11.3	8.5	6.5	3.1	2.6	2.1	1.7	24.5	3.3
Colour Life Services Group	01778 HK	HKD	5,368	8.9	8.4	7.7	7.0	1.2	1.1	0.9	0.9	13.4	3.2
Zhenro Services Group Ltd	06958 HK	HKD	5,343	n.a.	22.2	15.7	10.9	n.a.	n.a.	n.a.	n.a.	22.5	1.3
Aoyuan Healthy Life Group Co	03662 HK	HKD	4,604	23.5	16.6	11.1	8.5	4.9	3.9	3.1	2.5	26.0	2.4
Binjiang Service Group Co Lt	03316 HK	HKD	4,555	33.0	21.1	17.3	14.0	5.6	n.a.	n.a.	n.a.	24.5	2.4
Kaisa Prosperity Holdings Lt	02168 HK	HKD	3,588	17.6	13.7	9.9	7.2	4.4	2.6	2.3	1.9	26.4	2.9
Financial Street Property -H	01502 HK	HKD	3,511	21.2	22.5	17.3	12.8	n.a.	n.a.	n.a.	n.a.	19.2	1.3
Redsun Services Group Ltd	01971 HK	HKD	2,374	n.a.	23.4	14.1	9.8	n.a.	3.2	2.9	2.4	12.6	1.3
Yincheng Life Service Co Ltd	01922 HK	HKD	1,940	40.0	n.a.	n.a.	n.a.	14.2	n.a.	n.a.	n.a.	n.a.	n.a.
Xinyuan Property Management	01895 HK	HKD	1,720	12.7	n.a.	n.a.	n.a.	1.8	n.a.	n.a.	n.a.	n.a.	n.a.
Hevol Services Group Co Ltd	06093 HK	HKD	1,099	50.8	n.a.	n.a.	n.a.	5.0	n.a.	n.a.	n.a.	n.a.	n.a.
Riverine China Holdings Ltd	01417 HK	HKD	883	48.0	1.4	1.2	0.9	3.5	0.2	0.2	0.2	17.4	n.a.
Zhong Ao Home Group Ltd	01538 HK	HKD	820	6.4	5.5	4.4	n.a.	1.0	0.8	0.7	n.a.	n.a.	3.2
Xingye Wulian Service Group	09916 HK	HKD	608	11.2	n.a.	n.a.	n.a.	3.6	n.a.	n.a.	n.a.	n.a.	n.a.
Clifford Modern Living Holdi	03686 HK	HKD	528	4.9	n.a.	n.a.	n.a.	1.2	n.a.	n.a.	n.a.	n.a.	n.a.
Ye Xing Holdings Ltd	01941 HK	HKD	499	11.5	n.a.	n.a.	n.a.	5.9	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average				34.7	26.1	18.6	14.2	7.5	5.6	4.6	3.8	22.5	1.7
Weighted Average				54.3	38.4	27.4	20.3	14.0	9.9	7.7	6.0	27.0	1.0

Source: the Company, Guotai Junan International.

Financial Statements and Ratios

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F	Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Total revenue	1,200	1,620	1,970	2,516	3,206	Property and equipment	173	7	10	14	20
- Commercial operational services	980	1,335	1,588	2,042	2,631	Investment properties	156	207	445	544	599
- Property management services	221	285	382	474	574	Deferred tax assets	56	48	73	87	96
Cost of sales	(875)	(1,192)	(1,417)	(1,783)	(2,237)	Financial assets at FVTOCI	334	0	0	0	0
Gross profit	326	428	553	733	968	Investment in a joint venture	0	5	4	6	7
Selling and marketing expenses	(31)	(42)	(39)	(48)	(58)	Total non-current assets	719	267	532	652	722
Administrative expenses	(80)	(117)	(122)	(153)	(192)	Operating lease and trade receivables	82	114	146	196	254
Other income and gains, net	14	17	21	23	26	Prepayments and other receivables	334	91	120	150	180
Net impairment losses on financial assets	(3)	(7)	(25)	(10)	(5)	Current income tax recoverables	3	3	3	3	4
Operating profit	225	279	387	544	739	Restricted cash	487	0	4	5	5
Finance costs - net	(43)	(32)	2	5	8	Cash & cash equivalents	553	2,616	3,315	3,918	4,365
Share of loss of investments in JVs	0	0	(3)	(1)	0	Total current assets	1,458	2,824	3,587	4,271	4,808
Profit before tax	183	247	386	548	748	Total assets	2,178	3,091	4,119	4,923	5,529
Income tax	(50)	(69)	(104)	(148)	(202)	Trade and other payables	648	763	878	983	1,081
Profit after tax	133	179	282	400	546	Advances from leases	30	27	10	9	8
Non-controlling interest	0	0	(3)	(6)	(11)	Current income tax liabilities	54	34	67	74	81
Shareholders' profit / loss	133	179	279	394	535	Borrowings	526	0	0	0	0
Basic EPS (RMB)	0.329	0.440	0.450	0.611	0.830	Lease liabilities	206	226	271	312	343
						Contract liabilities	134	263	316	363	400
						Total current liabilities	1,597	1,313	1,541	1,741	1,913
						Borrowings	108	0	0	0	0
						Deferred income tax liabilities	7	0	0	0	0
						Lease liabilities	236	190	381	457	503
						Total non-current liabilities	351	190	381	457	503
						Total liabilities	1,948	1,504	1,922	2,198	2,416
						Total shareholders' equity	230	1,587	2,193	2,716	3,094
						Minority interest	0	0	3	9	20
						Total equity	230	1,587	2,196	2,725	3,113
Cash Flow Statement						Financial Ratios					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F		2018A	2019A	2020F	2021F	2022F
Operating activities						Revenue Growth (%)	23.4	35.0	21.6	27.7	27.4
Profit before tax	183	247	386	548	748	Gross Profit Growth (%)	28.6	31.5	29.0	32.5	32.2
Depreciation	109	104	113	148	169	Operating Profit Growth (%)	51.9	23.9	38.5	40.6	35.9
Net Impairment losses on financial assets	3	7	25	10	5	Shareholders' Net Profit Growth (%)	69.7	34.0	56.1	41.2	35.9
Gains on lease termination	0	(2)	0	0	0	Gross Margin (%)	27.1	26.4	28.1	29.1	30.2
Finance costs - net	43	32	(2)	(5)	(8)	Operating Profit Margin (%)	18.8	17.2	19.6	21.6	23.1
Changes in working capital	54	224	97	76	61	Shareholders' Net Margin (%)	11.1	11.0	14.2	15.6	16.7
Cash generated from operations	392	612	620	777	974	ROA (%)	6.8	6.8	7.7	8.7	10.2
Income taxes paid	(35)	(79)	(99)	(141)	(192)	ROE (%)	81.6	19.7	14.8	16.0	18.4
Cash from operating activities	356	534	520	636	782	Current Ratio (x)	0.9	2.1	2.3	2.5	2.5
Investing activities						Net Gearing Ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Purchases of properties and equipment	(3)	(6)	(13)	(14)	(16)	Total Liabilities/Total Assets (%)	89.4	48.7	46.7	44.6	43.7
Net proceeds from disposals of PPE	0	137	8	7	7	Average trade receivables days	28.2	29.4	31.4	27.7	26.5
Disposal of subsidiaries, net	0	29	0	0	0	Average trade payables days	27.9	24.9	24.9	22.4	19.8
Payment for investment in a joint venture	0	(5)	0	0	0						
Cash advances to related parties, net	454	432	0	0	0						
Interest received	2	16	27	32	39						
Restricted cash pledged	(485)	100	0	0	0						
Cash from investing activities	(31)	702	22	25	30						
Financing activities											
Proceeds from issue of shares, net	0	1,232	431	241	0						
Proceeds from borrowings, net	246	(267)	0	0	0						
Cash advances from related parties, net	18	31	0	0	0						
Principal elements of lease payments	(93)	(129)	(143)	(157)	(173)						
Interest paid	(55)	(40)	(29)	(31)	(35)						
Dividend paid	0	0	(103)	(112)	(157)						
Cash from financing activities	116	827	156	(59)	(364)						
Net changes in cash	441	2,063	698	603	448						
Cash at beginning of year	113	553	2,616	3,315	3,918						
Exchange losses	(0)	(0)	0	0	0						
Cash at end of year	553	2,616	3,315	3,918	4,365						

Source: the Company, Guotai Junan International.

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

DISCLOSURE OF INTERESTS

- (1) The Analysts and their associates do not serve as an officer of the issuer mentioned in this Research Report.
- (2) The Analysts and their associates do not have any financial interests in relation to the issuer mentioned in this Research Report.
- (3) Except for GUOTAI JUNAN I (01788 HK), JINSHANG BANK (02558 HK), BINHAI INVESTMENT (02886 HK), HAITIAN ANTENNA (08227 HK), Guotai Junan and its group companies do not hold equal to or more than 1% of the market capitalization of the issuer mentioned in this Research Report.
- (4) Guotai Junan and its group companies have had investment banking relationships with POWERLONG COMMERCIAL MANAGEMENT (09909 HK), POWERLONG REAL ESTATE (01238 HK), mentioned in this Research Report within the preceding 12 months.
- (5) Guotai Junan and its group companies are not making a market in the securities in respect of the issuer mentioned in this Research Report.
- (6) Guotai Junan and its group companies have not employed an individual serving as an officer of the issuer mentioned in this Research Report. There is no officer of the issuer mentioned in this Research Report associated with Guotai Junan and its group companies.

DISCLAIMER

This Research Report does not constitute an invitation or offer to acquire, purchase or subscribe for securities by Guotai Junan Securities (Hong Kong) Limited ("Guotai Junan"). Guotai Junan and its group companies may do business that relates to companies covered in research reports, including investment banking, investment services, etc. (for example, the placing agent, lead manager, sponsor, underwriter or invest proprietarily).

Any opinions expressed in this report may differ or be contrary to opinions or investment strategies expressed orally or in written form by sales persons, dealers and other professional executives of Guotai Junan group of companies. Any opinions expressed in this report may differ or be contrary to opinions or investment decisions made by the asset management and investment banking groups of Guotai Junan.

Though best effort has been made to ensure the accuracy of the information and data contained in this Research Report, Guotai Junan does not guarantee the accuracy and completeness of the information and data herein. This Research Report may contain some forward-looking estimates and forecasts derived from the assumptions of the future political and economic conditions with inherently unpredictable and mutable situation, so uncertainty may contain. Investors should understand and comprehend the investment objectives and its related risks, and where necessary consult their own financial advisers prior to any investment decision.

This Research Report is not directed at, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any jurisdiction where such distribution, publication, availability or use would be contrary to applicable law or regulation or which would subject Guotai Junan and its group companies to any registration or licensing requirement within such jurisdiction.

© 2020 Guotai Junan Securities (Hong Kong) Limited. All Rights Reserved.
 27/F., Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong.
 Tel.: (852) 2509-9118 Fax: (852) 2509-7793
 Website: www.gtja.com.hk