23 Aug 2024

CMB International Global Markets | Equity Research | Company Update

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招商银行全资附属机构
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Onewo (2602 HK)

1H24 missed, raised div. payout again to 100% of core net profit

Onewo's 1H24 earnings missed market expectation, but the company raised dividend payout ratio from 30% to 100% of core net profit (55% interim div + 45% special div.), representing a div yield of 9.1% based on the closing price on 22 Aug assuming no special dividend payout in the full year. 1H24 revenue was up 9.6% YoY, gross margin (GPM) contracted by 1.4 ppt to 13.6%, and net profit decreased by 23% YoY. **Our key findings are: 1)** Residential PM and Bpaas provided crucial support to the company despite challenging industry conditions. **2)** Commercial PM faced challenges in 1H24, with revenue growth accompanied by a decline in gross margin, largely due to price cuts to attract customers and becoming a major source of ARs in a weak economic environment. **3)** AIoT revenue was severely impacted by developer-related issues, with short-term expansion into non-developer clients leading to a notable decrease in GP and potential increases in ARs. **4)** Urban city services maintained profitability but will also increase AR burden. We anticipate continued deleveraging of developer-related businesses and sustained market competition in 2H24, which may further affect the company's performance. However, the company's core businesses, such as residential PM and Bpaas solutions, remain resilient, and the firm maintains a robust cash position, which will provide support during more challenging periods. We maintain our BUY rating but adjust TP downward by 9% to HK$40.01, corresponding to a 20x 2024E P/E multiple.

- **Look at results without developer-related businesses.** Given the significant impact of developer-related business (revenue down 34%, gross margin GPM down 13.8 ppt) on results, the company reported adjusted figures. By referring to the adjusted figures, we find that except for community VAS that shows c.10% YoY decline in revenue (mainly brokerage/home renovation business), other segments all recorded growth. Overall GPM fell 0.4 ppt. Accounts receivables (ARs) surged 39% YoY to RMB 9.4bn, mainly from commercial PM, unban services and AIot business. Cash on hand dropped 22% YoY to RMB 12.2 bn.
- **Residential: 1) Residential PM** revenue grew 15% YoY, with GPM increasing 1 ppt to 13.8%, performing fairly well amid intense competition in the first half of year. **2) Asset mgmt.** revenue declined 9% YoY, yet GPM rose 1 ppt to 30.3%, potentially due to a higher mix of resi. brokerage, while renovation services weighed on performance, consistent with the current weak consumption environment. **3) Other community VAS revenue** fell 8% YoY, with GPM dropping 7 ppt to 59.9%, reflecting reduced car parking slots sales volumes and inadequate cost-cutting measures.
- **Commercial: 1) Commercial PM** revenue grew 24%, with GPM declining 2 ppt to 8.0%, as IFM services continue building their client base. **2) Urban city services** revenue increased 11.3% YoY, with GPM decreasing 0.6 ppt to 8.9%, maintaining stability in a highly competitive environment.
- **Solution services: 1) AIoT** revenue grew 8.7%, with GPM declining 15 ppt to 16%, as the company expands its non-developer industry client base. **2) Bpaas** revenue increased 33% YoY, with GPM rising 2 ppt to 39.4%, reflecting successful external expansion and new clients from leading AI and large pharmaceutical companies.
- **Valuation:** We revise down our estimates on revenue/NP by 14/19% and 14/23% in 2024/25E to reflect the continued impact of developer-related business and high competition of industry. Maintain BUY rating with TP down 9% to HK$ 40.01, representing 20x 2024E P/E. **Risks**: AR impairment, intensified competition.

BUY (Maintain)

Target Price	**HK$40.01**
(Previous TP	HK$44.11)
Up/Downside	**115.1%**
Current Price	**HK$18.60**

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Stock Data

Mkt Cap (HK$ mn)	21,919.5
Avg 3 mths t/o (HK$ mn)	15.3
52w High/Low (HK$)	29.10/17.00
Total Issued Shares (mn)	1178.5

Source: FactSet

Shareholding Structure

China Vanke	50.9%
Radiant Sunbeam Ltd.	15.3%

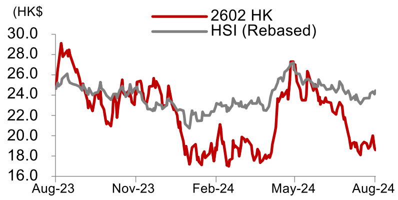
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-7.7%	-7.7%
3-mth	-31.1%	-25.0%
6-mth	0.0%	-5.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	30,106	33,183	36,263	40,302	44,729
YoY growth (%)	27.0	10.2	9.3	11.1	11.0
Net profit (RMB mn)	1,511.6	1,954.7	2,121.9	2,339.5	2,570.2
EPS (Reported) (RMB)	1.40	1.66	1.80	1.99	2.18
YoY growth (%)	(15.1)	18.8	8.6	10.3	9.9
Consensus EPS (RMB)	na	na	2.01	2.30	2.62
P/E (x)	12.2	10.3	9.5	8.6	7.8
P/B (x)	2.2	2.0	1.6	1.3	1.1
Yield (%)	2.5	4.6	9.1	9.9	10.6
ROE (%)	11.5	11.5	11.3	11.0	10.7

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Results summary

2602 HK Onewo results summary				without developer related businesses		
RMB mn	1H23	1H24	YoY	1H23	1H24	YoY
Revenue	**16,020**	**17,560**	9.6%	**13,213**	**15,356**	16.2%
Community space living consumption services	9,036	10,103	11.8%	8,716	9,826	12.7%
- Residential PM	8,155	9,316	14.2%	8,004	9,176	14.6%
- Community VAS - Home-related asset services	685	615	-10.3%	530	482	-9.1%
- Community VAS - Others	196	173	-11.8%	182	168	-8.0%
Commercial and urban space integrated services	5,668	6,065	7.0%	3,793	4,664	23.0%
- Commercial PM	3,974	4,799	20.8%	3,492	4,329	24.0%
- VAS to developers	1,383	916	-33.8%	n.a.	n.a.	n.a.
- Urban space integrated services	310	350	12.9%	301	335	11.3%
AIoT and BPaaS solution services	1,316	1,392	5.7%	704	865	22.9%
– AIoT solutions	670	603	-10.0%	299	325	8.7%
– BPaaS solutions	647	789	22.0%	405	540	33.4%
Gross profit	2,412	2,397	**-0.6%**	1,770	1,996	**12.8%**
Net profit attributable to shareholders	**998**	**772**	**-22.7%**	**355**	**371**	**4.4%**
Core net profit	**1,235**	**1,202**	**-2.7%**	**1,235**	**1,202**	**-2.7%**
EPS (RMB)	0.85	0.66	-22.5%	0.30	0.32	4.6%
Core EPS (RMB)	1.05	1.02	-2.5%	1.05	1.02	-2.5%
DPS (RMB)	0.32	1.02	224.1%	0.32	1.02	224.1%
Dividend payout ratio	37%	156%	119%	105%	324%	219%
Dividend payout ratio (on core EPS)	30%	100%	70%	30%	100%	70%
GP Margin	**15.1%**	**13.6%**	**-1.4 ppt**	**13.4%**	**13.0%**	**-0.4 ppt**
Community space living consumption services	14.9%	15.1%	0.2 ppt	13.2%	13.8%	0.5 ppt
- Residential PM	12.6%	13.4%	0.8 ppt	10.9%	12.1%	1.1 ppt
- Community VAS - Home-related asset services	28.4%	29.1%	0.6 ppt	29.2%	30.3%	1.1 ppt
- Community VAS - Others	64.8%	58.4%	-6.3 ppt	67.3%	59.9%	-7.4 ppt
Commercial and urban space integrated services	11.2%	7.1%	-4.1 ppt	9.8%	8.1%	-1.7 ppt
- Commercial PM	10.4%	8.3%	-2.1 ppt	9.9%	8.0%	-1.8 ppt
- VAS to developers	14.0%	0.2%	-13.8 ppt	n.a.	n.a.	n.a.
- Urban space integrated services	9.5%	8.9%	-0.6 ppt	9.5%	8.9%	-0.6 ppt
AIoT and BPaaS solution services	32.5%	31.6%	-0.9 ppt	34.6%	30.6%	-4.0 ppt
– AIoT solutions	31.1%	24.4%	-6.7 ppt	31.2%	16.0%	-15.3 ppt
– BPaaS solutions	33.9%	37.1%	3.2 ppt	37.1%	39.4%	2.3 ppt
Net Margin	**6.2%**	**4.4%**	**-1.8 ppt**	**2.7%**	**2.4%**	**-0.3 ppt**
Core net margin	**7.7%**	**6.8%**	**-0.9 ppt**	**9.3%**	**7.8%**	**-1.5 ppt**
Annualized income of managed GFA (RMB bn)	22.9	26.2	14.1%	22.9	26.2	14.1%
- Vanke Group	11.4	12.7	11.3%	11.4	12.7	11.3%
- Third parties	11.5	13.4	16.8%	11.5	13.4	16.8%
	FY23	**1H24**		**FY23**	**1H24**	
Trade receivables	6,781	9,445	39.3%	6,781	9,445	39.3%
Prepayments and other receivables	1,912	2,023	5.8%	1,912	2,023	5.8%
Cash	15,572	12,197	-21.7%	15,572	12,197	-21.7%

Source: Company data, CMBIGM estimates

Figure 2: Earnings revision

	New			Old			Diff (%)		
RMB mn	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	36,263	40,302	44,729	42,205	49,507	n.a.	-14%	-19%	n.a.
Gross Profit	5,053	5,603	6,196	6,533	7,769	n.a.	-23%	-28%	n.a.
Operating profit	2919	3,215	3,529	3,375	4,049	n.a.	-13%	-21%	n.a.
Net profit	2122	2340	2570	2540	3062	n.a.	-16%	-24%	n.a.
EPS (RMB)	1.66	1.80	1.99	1.92	2.35	n.a.	-14%	-23%	n.a.
Gross Margin	13.9%	13.9%	13.9%	15.5%	15.7%	n.a.	-1.5ppts	-1.8ppts	n.a.
Operating Margin	8.1%	8.0%	7.9%	8.0%	8.2%	n.a.	0.1ppts	-0.2ppts	n.a.
Net Margin	5.9%	5.8%	5.7%	6.0%	6.2%	n.a.	-0.2ppts	-0.4ppts	n.a.

Source: Company data, CMBIGM estimates

Figure 3: Valuation comps

Company	Ticker	Last Price	Mkt Cap	P/E (x)			Net Profit Growth (%)			Payout ratio	Dividend Yield	
		(LC)	(USD mn)	24E	25E	26E	24E	25E	26E	23A	23A	24E
CR MixC	1209.HK	21.55	6,313	12.6 x	10.6 x	9.0 x	22.2	18.4	18.0	55%	3.6%	4.4%
Onewo	**2602.HK**	**18.60**	**2,806**	**9.5 x**	**8.6 x**	**7.8 x**	**8.6**	**10.3**	**9.9**	**47%**	**4.6%**	**9.1%**
Country Garden Services	6098.HK	4.15	1,780	7.4 x	5.7 x	5.6 x	NA	29.0	2.3	337%	7.8%	5.4%
Poly Services	6049.HK	24.75	1,758	8.0 x	7.1 x	6.3 x	13.4	12.7	12.8	40%	4.4%	4.7%
COPH	2669.HK	4.53	1,909	8.4 x	7.1 x	6.0 x	20.8	18.3	17.8	31%	3.1%	3.6%
China Merchant PO	001914.SZ	8.59	1,279	10.4 x	8.7 x	7.4 x	19.5	18.5	17.6	24%	2.0%	2.4%
Greentown Services	2869.HK	3.13	1,271	12.3 x	10.4 x	9.0 x	21.2	18.1	15.8	72%	4.8%	4.8%
Greentown Management	9979.HK	4.10	1,058	6.1 x	4.9 x	4.0 x	27.1	25.1	22.5	100%	13.4%	13.4%
Sunac Services	1516.HK	1.68	659	7.4 x	6.5 x	5.7 x	NA	14.7	14.0	NA	23.3%	9.1%
Binjiang Services	3316.HK	16.18	574	7.1 x	6.0 x	5.2 x	17.0	17.7	16.4	70%	8.5%	8.5%
Yuexiu Services	6626.HK	2.99	583	7.3 x	6.2 x	5.3 x	17.2	17.8	15.6	50%	5.9%	6.8%
Jinke Services	9666.HK	7.37	584	10.3 x	8.9 x	7.5 x	NA	16.0	18.6	NA	0.0%	5.2%
C&D PM	2156.HK	2.73	493	6.3 x	5.1 x	4.2 x	20.1	23.1	20.6	67%	9.5%	NA
A-Living	3319.HK	2.54	463	3.0 x	2.8 x	2.4 x	138.8	8.2	16.1	26%	3.7%	7.0%
Ever Sunshine	1995.HK	1.48	328	5.5 x	4.7 x	0.0 x	(1.6)	15.7	NA	50%	9.2%	10.5%
S-Enjoy	1755.HK	2.90	324	4.6 x	4.3 x	4.0 x	12.8	8.2	7.4	39%	7.8%	NA
Jinmao Services	0816.HK	2.62	304	5.5 x	4.9 x	4.3 x	15.9	14.1	13.7	42%	6.5%	NA
Central China New Life	9983.HK	1.25	209	4.0 x	3.7 x	2.9 x	NA	9.7	26.9	NA	26.2%	14.3%
Powerlong Commercial	9909.HK	2.68	221	3.3 x	3.1 x	0.0 x	5.1	8.2	NA	19%	5.6%	9.0%
Excellence CM	6989.HK	1.33	208	4.4 x	4.0 x	3.7 x	10.7	11.3	7.8	69%	14.3%	NA
New Hope Services	3658.HK	1.76	184	5.6 x	5.2 x	5.0 x	9.1	7.5	5.0	59%	9.8%	NA
E-star CM	6668.HK	1.16	151	5.9 x	5.3 x	4.7 x	7.4	11.2	12.9	70%	11.2%	11.3%
Sino-Ocean Services	6677.HK	0.42	64	1.6 x	1.5 x	0.0 x	NA	12.2	NA	40%	3.8%	NA
Average				**9.3 x**	**7.9 x**	**6.8 x**	**17.7**	**17.2**	**14.5**	**69%**	**5.8%**	**5.6%**

Source: Company data, Wind, CMBIGM estimates
Note: Data as of 22 Aug.

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	**23,705**	**30,106**	**33,183**	**36,263**	**40,302**	**44,729**
Cost of goods sold	(19,685)	(25,875)	(28,372)	(31,211)	(34,699)	(38,533)
Gross profit	**4,020**	**4,231**	**4,812**	**5,053**	**5,603**	**6,196**
Operating expenses	**(2,049)**	**(2,604)**	**(2,571)**	**(2,465)**	**(2,740)**	**(3,041)**
Selling expense	(257)	(450)	(497)	(544)	(604)	(670)
Admin expense	(1,792)	(2,153)	(2,073)	(1,922)	(2,136)	(2,371)
Operating profit	**1,971**	**1,627**	**2,241**	**2,587**	**2,863**	**3,155**
Other income	309	525	595	459	459	459
Other expense	(69)	(156)	(271)	(271)	(271)	(271)
Share of (losses)/profits of associates/JV	34	(10)	(24)	(24)	(24)	(24)
Interest income	85	46	124	144	165	186
Interest expense	(10)	(11)	(9)	(11)	(11)	(11)
Net Interest income/(expense)	**75**	**35**	**116**	**133**	**154**	**176**
Pre-tax profit	**2,320**	**2,021**	**2,658**	**2,885**	**3,181**	**3,495**
Income tax	(606)	(434)	(622)	(675)	(744)	(818)
After tax profit	**1,714**	**1,587**	**2,036**	**2,210**	**2,437**	**2,677**
Minority interest	47	76	81	88	97	107
Net profit	**1,668**	**1,512**	**1,955**	**2,122**	**2,340**	**2,570**
Net dividends	3,537	456	916	764	829	897

BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	**13,708**	**21,789**	**24,885**	**27,870**	**31,252**	**34,885**
Cash & equivalents	6,431	13,345	15,572	18,080	20,648	23,388
Restricted cash	305	376	390	390	390	390
Account receivables	4,514	6,278	6,781	7,253	8,060	8,946
Inventories	261	70	56	62	69	76
Prepayment	1,698	1,698	1,912	1,912	1,912	1,912
ST bank deposits	496	22	173	173	173	173
Financial assets at FVTPL	4	0	0	0	0	0
Non-current assets	**15,016**	**15,174**	**14,498**	**14,520**	**14,532**	**14,534**
PP&E	501	666	679	722	755	778
Right-of-use assets	253	231	354	354	354	354
Deferred income tax	57	150	207	207	207	207
Investment in JVs & assos	10,057	10,246	9,395	9,405	9,416	9,426
Intangibles	8,244	8,507	7,981	7,981	7,981	7,981
Financial assets at FVTPL	1	1	1	1	1	1
Other non-current assets	(4,097)	(4,627)	(4,118)	(4,150)	(4,182)	(4,213)
Total assets	**28,724**	**36,963**	**39,383**	**42,390**	**45,784**	**49,419**
Current liabilities	**16,282**	**17,714**	**18,683**	**19,160**	**19,858**	**20,625**
Short-term borrowings	12	0	0	0	0	0
Account payables	3,243	5,320	5,764	6,242	6,940	7,707
Tax payable	745	738	989	989	989	989
Other current liabilities	192	192	0	0	0	0
Lease liabilities	101	109	100	100	100	100
Contract liabilities	4,168	4,515	4,681	4,681	4,681	4,681
Accrued expenses	7,822	6,840	7,149	7,149	7,149	7,149
Non-current liabilities	**2,130**	**2,248**	**2,480**	**2,480**	**2,480**	**2,480**
Long-term borrowings	4	0	0	0	0	0
Obligations under finance leases	150	124	252	252	252	252
Deferred income	1,088	1,043	951	951	951	951
Other non-current liabilities	888	1,081	1,278	1,278	1,278	1,278
Total liabilities	**18,412**	**19,961**	**21,163**	**21,640**	**22,338**	**23,105**
Share capital	1,050	1,178	1,178	1,178	1,178	1,178
Other reserves	8,843	15,281	16,427	18,868	21,468	24,229
Total shareholders equity	**9,893**	**16,460**	**17,605**	**20,047**	**22,646**	**25,408**
Minority interest	419	541	615	703	800	907
Total equity and liabilities	**28,724**	**36,963**	**39,383**	**42,390**	**45,784**	**49,419**

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**2,320**	**2,021**	**2,658**	**2,885**	**3,181**	**3,495**
Depreciation & amortization	395	855	1,016	1,066	1,116	1,166
Tax paid	(496)	(535)	(512)	(675)	(744)	(818)
Change in working capital	784	588	(325)	0	(117)	(126)
Others	(170)	(171)	(251)	161	141	119
Net cash from operations	**2,834**	**2,756**	**2,586**	**3,438**	**3,576**	**3,836**
Investing						
Capital expenditure	1	(423)	(258)	(329)	(369)	(409)
Acquisition of subsidiaries/ investments	(1,500)	(122)	335	34	34	34
Net proceeds from disposal of short-term investments	2,018	509	76	144	165	186
Others	0	0	0	0	0	0
Net cash from investing	**519**	**(36)**	**152**	**(150)**	**(170)**	**(188)**
Financing						
Dividend paid	(2,243)	(1,294)	(284)	(764)	(829)	(897)
Net borrowings	(19)	(16)	0	(11)	(11)	(11)
Proceeds from share issues	0	5,728	0	0	0	0
Others	(58)	(235)	(233)	0	0	0
Net cash from financing	**(2,319)**	**4,183**	**(517)**	**(774)**	**(839)**	**(908)**
Net change in cash						
Cash at the beginning of the year	5,398	6,431	13,345	15,567	18,080	20,648
Exchange difference	(0)	12	0	0	0	0
Cash at the end of the year	**6,431**	**13,345**	**15,567**	**18,080**	**20,648**	**23,388**

GROWTH	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Revenue	30.6%	27.0%	10.2%	9.3%	11.1%	11.0%
Gross profit	19.5%	5.2%	13.7%	5.0%	10.9%	10.6%
Operating profit	7.4%	(17.5%)	37.7%	15.5%	10.6%	10.2%
Net profit	13.9%	(9.4%)	29.3%	8.6%	10.3%	9.9%

PROFITABILITY	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Gross profit margin	17.0%	14.1%	14.5%	13.9%	13.9%	13.9%
Operating margin	8.3%	5.4%	6.8%	7.1%	7.1%	7.1%
Return on equity (ROE)	20.7%	11.5%	11.5%	11.3%	11.0%	10.7%

GEARING/LIQUIDITY/ACTIVITIES	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
Current ratio (x)	0.8	1.2	1.3	1.5	1.6	1.7
Receivable turnover days	69.5	76.1	74.6	73.0	73.0	73.0
Inventory turnover days	4.8	1.0	0.7	0.7	0.7	0.7
Payable turnover days	60.1	75.0	74.2	73.0	73.0	73.0

VALUATION	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec						
P/E	10.3	12.2	10.3	9.5	8.6	7.8
P/B	8.3	2.2	2.0	1.6	1.3	1.1
Div yield (%)	20.5	2.5	4.6	9.1	9.9	10.6

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

Disclosures & Disclaimers

Analyst Certification

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