

Shimao Services (873 HK)

Entering an increasingly selective sector

We expect Shimao Services, along with other new listings in 2H20, to bring increased selectiveness to the sector. The Company fits the fast-growing, mid-sized PMco archetype, while being more M&A-inclined than its peers. The Company is a relative late-starter in terms of third-party bidding, but needs to rely on its rapid growth to deliver target of est. 37mn sq m new contracted GFA in 2021, vs. 25mn sq m from Shimao Group (813 HK) and 38mn sq m from M&A.

- Backed by notable property developer.** Established in 2005, Shimao Services is a notable property service provider with strong exposure in key economic regions, and is backed by leading developer Shimao Group. As of 1H20, managed GFA was 85.7mn sq m, 58% of which was developed by the parent group. The Company does not manage commercial properties due to non-competition with other Shimao subsidiaries.
- Aiming to accelerate growth through quality M&As.** Shimao Services plans to increase contracted GFA by 100mn sq m each year from 2019-2021E, relying on M&As especially in the near term. Since 2019, Shimao Services has made seven PM-related M&As with a total managed GFA of 45mn sq m. Most deals were priced at around 12x historical P/E. The Company seeks to gain 68/38mn sq m new contracted GFA through M&A in 2020E/21E, mainly targeting other PM companies with complementary geographical presence. Notably, the Company does not usually enter profit guarantee arrangements with its M&A targets, which is a sign of confidence but also a test on its post-acquisition management ability.
- Ambitious targets for relatively unproven third-party bidding.** Compared to its extensive M&A record, the Company is relatively unproven in third-party bidding. Overall the Company targets 100mn sq m of new contracted GFA per year in 2019-21E, With Shimao/third-party bidding/M&A making up est. 25%/37%/38% of new contracted GFA by 2021E.
- Cooperation with strategic investors to further tech integration.** Sequoia Capital China and Tencent (700 HK) made strategic investments in Shimao Services in May 2020, which may drive improvements in information systems and further application of smart technologies in property management services. Furthermore, the Company plans to form with its strategic partners a JV that explores the concept of smart city services, which involves traffic management, parking allocation, etc.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19A
Revenue (RMB mn)	1,043	1,329	2,489
YoY growth (%)	N/A	27.4	87.3
Net income (RMB mn)	109	146	385
EPS (RMB)	N/A	N/A	N/A
YoY growth (%)	N/A	N/A	N/A
P/E (x)	N/A	N/A	N/A
P/B (x)	N/A	N/A	N/A
Yield (%)	N/A	N/A	N/A
ROE (%)	27	18	52
Net gearing (%)	61	1	Net cash

Source: Company data, Bloomberg, CMBIS

NOT RATED

Current Price

HK\$16.00

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	37,647
Avg 3 mths t/o (HK\$ mn)	N/A
52w High/Low (HK\$)	16.60/14.06
Total Issued Shares (mn)	2,353

Source: Bloomberg

Shareholding Structure

Shimao Group	66.5%
Sequoia Capital China	4.5%
Tencent	4.0%
Free float	25.0%

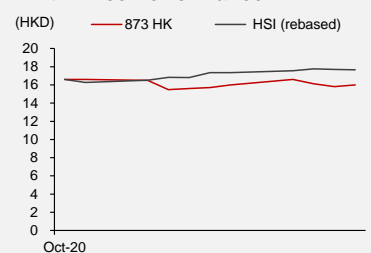
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	N/A	N/A
3-mth	N/A	N/A
6-mth	N/A	N/A

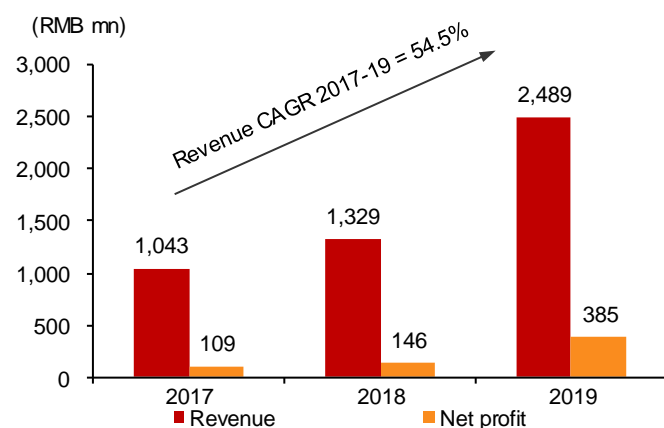
Source: Bloomberg

12-mth Price Performance

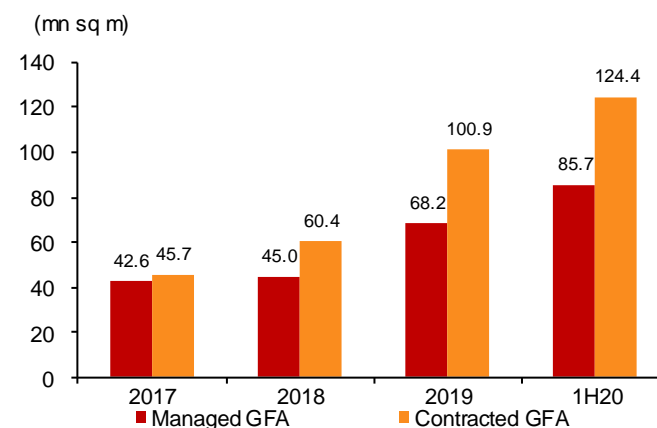


Source: Bloomberg

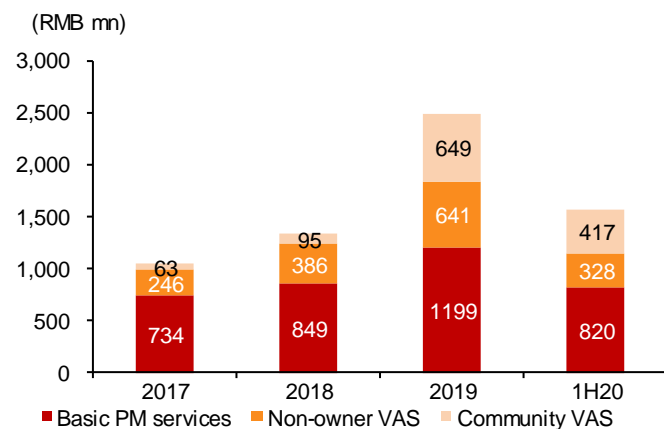
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Figure 1: Revenue and net profit

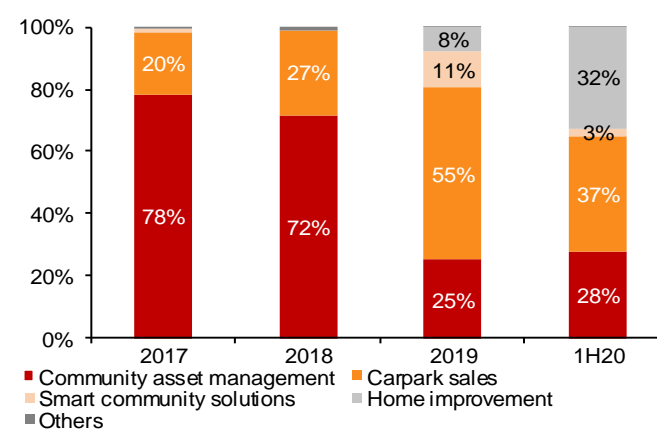
Source: Company data, CMBIS

Figure 2: Managed and contracted GFA

Source: Company data, CMBIS

Figure 3: Revenue breakdown

Source: Company data, CMBIS

Figure 4: Community VAS mix by service type

Source: Company data, CMBIS

Figure 5: Past M&As by Shimao Services

Date	Target company	Stake	Consideration (RMB mn)	Managed GFA (mn sq m)
Jul-2019	Hailiang PM	100%	290	14.8
Dec-2019	Quanzhou Sanyuan	51%	3	1.3
Jan-2020	Guangzhou Yuetai	100%	110	3.8
Mar-2020	Fusheng Life Services	51%	0 ¹	10.7
Jun-2020	Chengdu Xinyi	67%	74	2.3
Jul-2020	Beijing Guancheng	100%	130	3.1
Aug-2020	Zheda Sinew	51%	615	8.9
Total			1,222	44.9

Source: Company data, CMBIS

Note: 1) In acquiring Fusheng Life Services, the Company assumed RMB 145.2mn of the target company's net current liabilities.

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