

Evergrande Property Services (6666 HK)

Pressure mounts after cancelled sale

- What's new?** Evergrande has announced termination of the sale of 50.1% Evergrande PM shares to Hopson. The acquisition was supposed to raise HK\$20bn to help ease Evergrande's liquidity issue, however, this translates to HK\$3.70 per share (28% discount, last traded price HK\$5.12). The reason for this termination was announced by Hopson claiming they rejected Evergrande's request on paying directly to Evergrande Group instead of Evergrande PM. Hopson further stated that if the sale can be completed, it will trigger a mandatory general offer. From its tone, Hopson is still pursuing to finish the deal while Evergrande states the deal has been "terminated" because Hopson has not met the prerequisite to make a general offer.
- Delivery pressure follows cancelled sale.** If this transaction with Hopson fail and before a new player comes in to the rescue, Evergrande will make little progress in revitalizing its assets and safeguarding delivery as promised. Based on our estimates, there are 121 projects in the guaranteed delivery region (YRD and PRD) with total GFA of 35mn sq m and salable value of RMB311bn (Figure 1). If we assume the construction cost of RMB3k/sq m and 40% of the work to be done, then Evergrande needs roughly RMB42bn. With this pressure and uncertainty in mind, Evergrande PM will face downward pressure on its valuation.
- Valuation:** Before the halt in trading, Evergrande PM was trading at 13.21x 2021E PE, below its 5-year historical average of 33.83x and 1 SD below average of 16.85x PE.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	7,333	10,509	17,011	26,928	38,982
YoY growth (%)	24.2	43.3	61.9	58.3	44.8
Net income (RMB mn)	930	2,648	4,076	6,216	8,596
EPS (RMB)	0.09	0.26	0.38	0.57	0.80
YoY growth (%)	N.A.	N.A.	43.3	52.5	38.3
Consensus EPS (RMB)	N.A.	N.A.	0.33	0.35	0.38
P/E (x)	N.A.	N.A.	11.3	7.4	5.3
P/B (x)	N.A.	N.A.	3.4	2.4	1.7
ROE (%)	52.8	26.7	29.8	32.1	31.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$10.39
(Previous TP)	HK\$10.39)
Up/Downside	+102.9%
Current Price	HK\$5.12

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	55,351
Avg 3 mths t/o (HK\$ mn)	369.94
52w High/Low (HK\$)	19.74/ 3.93
Total Issued Shares (mn)	10,811

Source: Bloomberg

Shareholding Structure

Evergrande Group	60.96%
Free float	39.04%

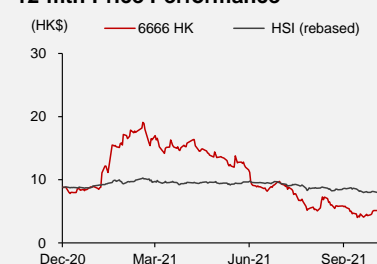
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	3.0%	9.9%
3-mth	-43.6%	-36.2%
6-mth	-68.7%	-63.7%
12-mth	N.A.	N.A.

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Key Charts

Figure 1: Land bank in YRD and PRD

Land Bank			
	Total GFA (sqm mn)	Total Value (RMB mn)	# of Projects
Yangtze River Delta (As of 2020)			
Shanghai	7.0	62,965	9
Nanking	3.8	33,792	9
Hangzhou	0.8	7,329	3
Ningbo	2.5	22,342	7
Suzhou	0.8	6,975	3
Wuxi	2.9	26,328	15
Wenzhou	1.6	14,826	3
Nantong	0.4	3,836	2
Xuzhou	0.6	5,420	2
Rest of Zhejiang	5.2	47,088	19
Rest of Jiangsu	7.6	68,708	24
Completed in 2018-20	(27.0)	(243,285)	
Newly added in 2018-20	22.7	204,010	
Total	28.9	260,331	96
Pearl River Delta (As of 2020)			
Guangzhou	0.2	1,693	1
Shenzhen	1.3	11,525	5
Foshan	2.7	23,892	8
Zhongshan	0.7	6,224	2
Shantou	0.9	7,962	1
Rest of Guangdong	3.9	35,458	8
Completed in 2018-20	(22)	(196,111)	
Newly added in 2018-20	18	160,754	
	5.7	51,398	25
Total	34.6	311,730	121

Source: Company data, CMBIS

Figure 2: Comps table

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E			Net profit growth (%)	
						20A	21E	22E	21E	22E
Country Garden Services	6098 HK	BUY	91.2	64.0	205,899	63.4	38.4	26.2	64.8	46.6
CR MixC Lifestyle	1209 HK	BUY	56.0	42.0	95,751	79.1	52.6	37.9	50.5	38.7
A-Living	3319 HK	HOLD	34.2	27.8	39,405	17.6	12.9	9.9	36.7	30.7
Greentown Services	2869 HK	HOLD	9.5	8.8	28,488	38.4	24.6	18.8	56.3	30.8
Ever Sunshine	1995 HK	BUY	22.2	16.4	27,395	64.7	35.0	23.6	84.7	48.5
Poly Services	6049 HK	HOLD	53.4	48.5	26,809	35.3	25.0	19.6	41.0	27.5
S-Enjoy	1755 HK	BUY	34.6	16.0	13,981	25.9	16.7	11.6	55.3	43.9
Powerlong Commercial	9909 HK	BUY	33.2	17.3	11,100	31.4	19.8	14.4	58.2	37.7
Excellence CM	6989 HK	BUY	14.9	5.6	6,785	16.0	11.0	7.8	45.6	40.4
Central China New Life	9983 HK	BUY	12.9	5.9	7,543	13.9	10.0	7.4	38.1	36.0
Sino-Ocean Services	6677 HK	BUY	7.1	4.4	5,174	11.5	10.0	7.0	14.5	43.7
New Hope Services	3658 HK	BUY	4.4	2.1	1,726	12.6	7.4	4.8	70.7	53.8
Redsun Services	1971 HK	BUY	9.4	4.3	1,785	19.1	9.3	6.3	105.2	48.4
Evergrande Services	6666 HK	BUY	10.4	5.1	55,351	16.2	11.3	7.4	54.0	52.5
Sunac Services	1516 HK	BUY	29.8	16.3	50,479	53.9	26.2	16.3	105.3	60.6
COPH	2669 HK	NR	NA	7.2	23,501	32.9	25.4	19.5	29.3	30.6
Times Neighborhood	9928 HK	NR	NA	4.1	4,012	14.9	8.1	4.5	84.5	81.3
Aoyuan Healthy Life	3662 HK	NR	NA	4.0	2,876	10.3	6.7	4.7	55.2	42.0
Shimao Services	873 HK	NR	NA	15.0	35,460	36.2	22.9	13.9	57.9	64.3
KWG Living	3913 HK	NR	NA	5.8	11,643	27.0	13.3	8.5	103.0	56.2
Jinke Smart Services	9666 HK	NR	NA	46.0	30,031	32.5	22.3	14.8	46.1	50.8
					Average	48.5	30.2	21.0	60.1	44.0

Source: Bloomberg, CMBIS

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	7,333	10,509	17,011	26,928	38,982	Profit before tax	1,229	3,499	5,411	8,251	11,434
Basic PM	4,612	6,322	10,366	16,673	22,941	D&A	38	39	15	15	15
Non-owner VAS	2,148	2,923	4,085	5,479	7,668	Change in working capital	(1,683)	2,669	0	(14)	(17)
Community VAS	573	1,264	2,561	4,776	8,373	Others	48	(1,034)	(1,262)	(1,923)	(2,660)
Cost of sales	(5,578)	(6,503)	(10,748)	(17,197)	(25,157)	Net cash from operating	(368)	5,172	4,164	6,329	8,772
Gross Profit	1,755	4,006	6,263	9,731	13,825	Capex	-	(55)	(4,500)	(4,800)	(5,000)
Other income	67	150	150	152	155	JV/Associates	4	4	-	-	-
Administrative expenses	(515)	(629)	(900)	(1,500)	(2,377)	Others	118	961	-	-	-
Other expenses	(48)	(10)	(101)	(131)	(167)	Net cash from investing	122	910	(4,500)	(4,800)	(5,000)
Operating profit	1,258	3,516	5,413	8,253	11,436	Equity raised	-	5,953	-	-	-
JV/Associates	-	-	-	-	-	Change of debts	(147)	(3)	-	-	-
Finance cost	(29)	(17)	(1)	(1)	(1)	Dividend	23	(113)	(408)	(622)	(860)
						Net cash from financing	(124)	5,838	(408)	(622)	(860)
Pre-tax Profit	1,229	3,499	5,411	8,251	11,43	Net change in cash	(370)	11,920	(744)	907	2,912
Income tax	(299)	(851)	(1,31)	(2,00)	(2,77)	Cash at the beginning of the	1,054	684	12,603	11,860	12,767
PROFIT FOR THE YEAR	931	2,647	4,096	6,246	8,656	Exchange difference	-	(1)	-	-	-
Non-controlling interest	(0)	1	(20)	(30)	(60)	Cash at the end of the year	684	12,603	11,860	12,767	15,679
Net Profit attribute to shareholders	930	2,648	4,076	6,216	8,596						
						Key ratios					
						YE Dec 31 (Rmb mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Balance sheet						Sales mix (%)					
YE Dec 31 (Rmb mn)	FY19A	FY20A	FY21E	FY22E	FY23E	Basic PM	62.9	60.2	60.9	61.9	58.8
Non-current assets	150	262	4,767	9,572	14,577	Non-owner VAS	29.3	27.8	24.0	20.3	19.7
Property, plant and	57	54	59	64	69	Community VAS	7.8	12.0	15.1	17.7	21.5
Right-of-use assets	26	128	4,628	9,428	14,428	Total	100.0	100.0	100.0	100.0	100.0
Others	67	80	80	80	80	Profit & loss ratios (%)					
Current assets	7,307	16,803	16,883	18,795	22,913	Gross margin	23.9	38.1	36.8	36.1	35.5
Trade and other receivables	6,606	4,186	5,024	6,028	7,234	Net margin	12.7	25.2	24.0	23.1	22.1
Cash and cash equivalents	684	12,604	11,860	12,767	15,679	Effective tax rate	24.3	24.3	24.3	24.3	24.3
Others	16	12	0	0	0	Growth (%)					
Total assets	7,457	17,064	21,650	28,367	37,490	Revenue	24.2	43.3	61.9	58.3	44.8
Current liabilities	5,669	7,105	7,930	8,920	10,109	Gross profit	142.7	128.3	56.3	55.4	42.1
Trade and other payables	3,367	4,365	5,191	6,181	7,369	Operating profit	289.0	179.5	53.9	52.5	38.6
Others	2,302	2,739	2,739	2,739	2,739	Net profit	289.1	184.7	53.9	52.5	38.3
Non-current liabilities	13	26	26	26	26	Balance sheet ratios					
Lease liabilities	13	11	11	11	11	Current ratio (x)	1.3	2.4	2.1	2.1	2.3
Others	-	15	15	15	15	Receivable turnover days	262	145	110	110	110
Total liabilities	5,682	7,130	7,955	8,946	10,134	Returns (%)					
Equity to shareholders	1,762	9,923	13,664	19,360	27,235	ROE	52.8	26.7	29.8	32.1	31.6
Non-controlling interests	13	11	31	61	121	ROA	12.5	15.5	18.8	21.9	22.9
Total Equity	1,774	9,934	13,695	19,421	27,356	Per share					
						EPS (RMB)	0.09	0.26	0.38	0.57	0.80
						DPS (RMB)	0.00	0.00	0.04	0.06	0.08
						BVPS (RMB)	0.00	0.92	1.26	1.79	2.52

Source: Company data, CMBIS estimates

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