

Sunac Services (1516 HK)

Our read on its termination of first service acquisition and latest operation update

We are **positive** on the termination of First Service acquisition, as the deal looks too expensive and too risky after Modern Land's default. Together with very attractive valuation of 11x 2021E, it may provide some short-term upward support on the share price. In the mid-term, the re-rating largely depends on the outlook of its parentco as 62% of the revenue is related to Sunac property based on our estimates. Management recognized and tried to diversify from parentco risk via more third-party expansion (2021E up 200% YoY in contracted GFA) and non-residential GFA.

■ **What's new:** At 9:30am of 4 Jan, management hosted a conference call to update investors on the First Service (2107 HK, NR) deal termination and latest operation trend.

- **What management thinks of the First Service deal:** According to the announcement and management, Modern Land (major shareholder of First Service) suddenly disagreed on the newly proposed consideration, which was lower than the previous one after putting its latest bond default into consideration.
- **What we think of the cancellation of First Service Deal:** We think it is **positive** mainly because 1) the deal seemed too expensive (at 14x 2021E PE) after small players have been de-rated to <8x 2021E in the recent months. 2) The asset quality looks less promising with its parentco default as the GFA deliveries could be largely impacted. 3) Save RMB2.2bn cash in the balance sheet for better stability.
- **What management says on the latest operation update:** 1) There are some negative impacts on GFA delivery from parentco due to weak property sentiment. 2) However, third-party expansion (excl. M&A) has increased 200% YoY in 2021 which can help offset the parentco impact. In particular, 40% of GFA from third party has been non-residential to diversify the portfolio. 3) Therefore, together with continuous efforts into VAS (low base in 2020), management is confident to achieve 2021E earnings guidance. 4) No further connected transaction with parentco.
- **What is our view on the latest operation update:** We think its re-rating will still largely depend on the parentco's outlook in the near term as 62% of the revenue is highly related to Sunac property. Although the valuation currently looks extremely attractive at 11x 2021E PE vs. CGS at 27x, we may still see volatility going forward.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	2,827	4,623	8,873	14,188	21,021
YoY growth (%)	85.5	155.1	74.6	48.6	36.5
Net income (RMB mn)	270	601	1,233	1,981	3,072
EPS (RMB)	0.12	0.25	0.51	0.83	1.28
YoY growth (%)	N.A.	N.A.	114.7	105.3	60.6
Consensus EPS (RMB)	N.A.	N.A.	0.42	0.66	0.94
P/E (x)	N.A.	52.3	23.0	11.2	7.0
P/B (x)	N.A.	N.A.	3.1	2.8	2.3
ROE (%)	73.5	6.2	12.4	17.4	22.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$29.80
 (Previous TP HK\$29.80)
Up/Downside +300%
Current Price HK\$7.0

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	21,470
Avg 3 mths t/o (HK\$ mn)	241.32
52w High/Low (HK\$)	29.40/6.85
Total Issued Shares (mn)	3,101

Source: Bloomberg

Shareholding Structure

Sunac Holdings	66.36%
Free float	33.64%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-39.5%	-38.2%
3-mth	-56.8%	-54.4%
6-mth	-75.1%	-69.7%
12-mth	-59.4%	-52.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: Comps

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	44.6	150,127	44.2	26.6	18.2	65.8	45.9
CR MixC Lifestyle	1209 HK	BUY	56.0	35.5	80,915	66.9	43.6	31.7	53.6	37.3
A-Living	3319 HK	HOLD	34.2	12.5	17,778	7.9	5.7	4.4	38.9	29.4
Greentown Services	2869 HK	HOLD	9.5	7.1	23,169	31.3	19.8	15.2	57.6	30.8
Ever Sunshine	1995 HK	BUY	22.2	11.3	19,749	44.4	24.1	16.3	84.7	47.2
Poly Services	6049 HK	HOLD	53.4	56.7	31,374	41.3	29.3	22.8	41.0	28.5
S-Enjoy	1755 HK	BUY	34.6	9.9	8,629	16.0	10.1	7.1	58.2	42.7
Powerlong Commercial	9909 HK	BUY	33.2	14.1	9,052	25.6	15.9	11.5	61.5	37.7
Excellence CM	6989 HK	BUY	14.9	4.5	5,440	12.8	8.4	6.2	51.9	36.4
Central China New Life	9983 HK	BUY	12.9	4.8	6,142	11.3	8.1	5.9	40.2	36.1
Sino-Ocean Services	6677 HK	BUY	7.1	4.6	5,482	12.2	10.7	7.7	13.4	39.4
New Hope Services	3658 HK	BUY	4.4	2.6	2,109	15.4	9.0	5.8	70.7	53.8
Redsun Services	1971 HK	BUY	9.4	4.2	1,747	18.7	9.1	6.1	105.2	48.4
Evergrande Services	6666 HK	BUY	10.4	2.6	28,324	8.3	5.8	3.8	54.0	52.5
Sunac Services	1516 HK	BUY	29.8	7.0	21,470	23.0	11.2	7.0	105.3	60.6
COPH	2669 HK	NR	NA	7.9	25,999	36.4	27.9	21.4	30.6	30.3
Times Neighborhood	9928 HK	NR	NA	2.6	2,533	9.4	5.1	2.8	85.6	78.5
Aoyuan Healthy Life	3662 HK	NR	NA	2.4	1,736	6.2	4.0	2.8	55.2	42.0
Shimao Services	873 HK	NR	NA	5.1	12,742	12.4	8.0	5.4	55.0	47.6
KWG Living	3913 HK	NR	NA	2.9	5,829	13.5	6.5	4.2	108.2	53.5
Jinke Smart Services	9666 HK	NR	NA	31.8	20,728	22.4	15.1	10.1	48.1	49.4
Average						37.7	23.9	17.1	59.1	42.6

Source: Company data, CMBIS estimates

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	2,827	4,623	8,873	14,188	21,021	Profit before tax	346	822	1,618	2,599	4,030
Property management	1,148	2,774	5,904	9,536	13,778	D&A	35	82	65	72	79
VAS to non-property	1,572	1,673	2,569	3,797	5,419	Change in working capital	353	270	1,588	2,057	2,689
Community VAS	107	176	399	855	1,824	Others	(27)	(151)	(390)	(606)	(924)
						Net cash from operating	707	1,024	2,881	4,122	5,873
Gross Profit	720	1,275	2,445	3,940	6,032	Capex	(8)	(13)	(16)	(40)	(40)
Other income	37	57	26	26	26	Capital Injection	-	-	(1)	-	-
Selling expenses	(19)	(29)	(44)	(71)	(105)	Others	611	(1,358)	(999)	(1,476)	(1,976)
Administrative expenses	(383)	(496)	(799)	(1,277)	(1,892)	Net cash from investing	603	(1,371)	(1,016)	(1,516)	(2,016)
Other gains/(losses)			-	-	-	Equity raised	-	7,592	-	-	-
Impairment	(3)	(15)	(18)	(28)	(42)	Change of debts	304	(713)	(615)	-	-
Operating profit	357	803	1,611	2,590	4,019	Others	(896)	1,750	225	(614)	(942)
						Net cash from financing	(592)	8,629	(390)	(614)	(942)
Pre-tax Profit	346	822	(2)	(2)	(2)	Net change in cash	718	8,282	1,475	1,991	2,915
						Cash at the beginning of the year	372	1,090	9,368	10,843	12,834
			1,618	2,599	4,030	Exchange difference	(0)	(4)	-	-	-
Income tax	(76)	(197)	(372)	(598)	(927)	Cash at the end of the year	1,090	9,368	10,843	12,834	15,750
PROFIT FOR THE YEAR	270	601	1,246	2,001	3,103						
						Key ratios					
						YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Balance sheet						Sales mix (%)					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	Property management	40.6	60.0	66.5	67.2	65.5
Non-current assets	153	1,949	2,497	3,964	5,926	VAS to non-property owners	55.6	36.2	29.0	26.8	25.8
Property, plant and equipment	29	59	69	79	89	Community VAS	3.8	3.8	4.5	6.0	8.7
Others	124	1,890	2,428	3,885	5,837	Total	100.0	100.0	100.0	100.0	100.0
Current assets	2,118	11,008	13,250	16,646	21,365	Profit & loss ratios (%)					
Inventories	82	41	129	205	300	Gross margin	25.5	27.6	27.6	27.8	28.7
Trade and other receivables	946	1,388	2,268	3,597	5,305	Net margin	9.5	13.0	13.9	14.0	14.6
Cash and cash equivalents	1,090	9,368	10,843	12,834	15,750	Effective tax rate	22.0	23.9	23.0	23.0	23.0
Others	-	211	10	10	10	Growth (%)					
Total assets	2,271	12,957	15,747	20,611	27,291	Revenue	53.5	63.5	91.9	59.9	48.2
Current liabilities	1,751	2,950	5,506	8,968	13,460	Gross profit	69.9	77.0	91.8	61.1	53.1
Trade and other payables	1,087	1,773	3,405	5,534	8,244	Operating profit	106.4	125.3	100.5	60.8	55.2
Others	664	1,177	2,101	3,434	5,216	Net profit	174.5	122.6	105.3	60.6	55.1
Non-current liabilities	22	272	217	218	219	Balance sheet ratios					
Deferred income tax	7	81	30	30	30	Current ratio (x)	1.2	3.7	2.4	1.9	1.6
Others	16	191	188	189	190	Receivable turnover days	76	107	91	91	91
Total liabilities	1,773	3,222	5,723	9,187	13,679	Returns (%)					
Equity to shareholders	367	9,684	9,985	11,405	13,624	ROE	73.5	6.2	12.4	17.4	22.5
Non-controlling interests	131	51	39	19	(12)	ROA	11.9	4.6	7.8	9.6	11.3
Total Equity	498	9,735	10,024	11,424	13,612	Per share					
						EPS (RMB)	0.12	0.25	0.51	0.83	1.28
						DPS (RMB)	0.00	0.00	0.15	0.25	0.38

Source: Company data, CMBIS estimates

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