

S-Enjoy Service (1755 HK)

2020E NP up >50% YoY; Rerating on improving third Party expansion and VAS

After market close of 4 Feb, S-Enjoy released a profit alert citing >50% YoY growth in 2020E net profit, in line with its guidance and consensus estimates. We believe actual 2020 earnings could be even higher, at RMB 450mn or +60% YoY on VAS outperformance. Currently S-Enjoy is trading at 16x 2022E, a discount to market leaders of above 25x, but we think it deserves a rerating to narrow the discount on two valuation drivers. 1) Improving third party expansion: 40% of newly-added GFA under management comes from third party (already higher than industry average of 30%) to clear doubts of sales slowdown by its parentco; 2) Fast VAS growth to make a higher contribution of revenue (13% in 2020E vs. 9% in 2019 and closer to industry average of 15-17%). Therefore we maintain Buy rating. **Catalysts:** inclusion of HK-connect (to be announced on 26 Feb); 2020E earnings beat in March.

- **Improving third-party expansion capability to support long-term growth.** S-Enjoy used to rely heavily on Parentco's support on expansion of GFA under management (~70% were from Parentco's sales). Since 2020, the Company has tried to enforce third party expansion by increasing the incentives plan (20-30% of first-year net profit of the bidding GFA) for expansion team as bonus to match with market leaders. We started to see improving results as 40% of newly-added GFA under management came from third party in 2020 vs. 20% in the previous years, 30% of industry average and closer to market leader Ever Sunshine of >60%. This would clear some doubts on the sales slowdown of its parentco and support the long-term growth. As of 2020 End, it grew its managed GFA by 66% YoY and had a reserved/managed GFA ratio of 100%, both top of the industry.
- **Fast VAS growth on fast GFA expansion and new offerings.** As mentioned above, S-Enjoy's fast GFA expansion would help drive its residents base and thus benefit VAS growth. Also, it tried new offerings such as catering (office) and elevator maintenance (it signed contract with top elevator service providers to take commissions) to improve monetization. Looking ahead, we expect overall VAS to grow 56% CAGR in 2019-22E and its revenue contribution would improve to 13%, catching up with industry.
- **Likely addition to stock connect as another catalyst.** S-Enjoy has satisfied the criteria of HK\$5bn market cap for the past one year and thus there's a high probability of being included this time.
- **Current valuation of 16x 2022E P/E attractive.** Currently it's trading at 16x 2022E P/E, which is lower than the industry average of 22-25x. We believe its improving third party expansion and VAS potential would help narrow the gap with market leaders and reiterate Buy.

Earnings Summary

| (YE 31 Dec) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------|----------|----------|----------|----------|----------|
| Revenue (RMB mn) | 1,173 | 2,024 | 3,086 | 4,308 | 5,485 |
| YoY growth (%) | 35.4 | 72.5 | 52.5 | 39.6 | 27.3 |
| Net income (RMB mn) | 152 | 282 | 448 | 633 | 805 |
| EPS (RMB) | 0.24 | 0.34 | 0.55 | 0.77 | 0.98 |
| YoY growth (%) | N.A. | 42.9 | 58.8 | 41.3 | 27.2 |
| Consensus EPS (RMB) | 0.24 | 0.34 | 0.51 | 0.78 | 1.14 |
| P/E (x) | N.A. | 45.9 | 28.9 | 20.4 | 16.1 |
| P/B (x) | N.A. | 13.5 | 10.9 | 7.5 | 3.5 |
| Yield (%) | N.A. | 1.1 | 1.6 | 2.2 | 2.8 |
| ROE (%) | 17.8 | 30.5 | 39.8 | 39.1 | 35.5 |
| Net gearing (%) | Net cash | Net cash | Net cash | Net cash | Net cash |

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

| | |
|---------------|------------|
| Target Price | HK\$29.50 |
| (Previous TP | HK\$29.50) |
| Up/Downside | +54.5% |
| Current Price | HK\$19.10 |

China Property Service Sector

Bowen Li
 (852) 3657 6239
 bowenli@cmbi.com.hk

Jeffrey Zeng
 (852) 3916 3727
 jeffreyzeng@cmbi.com.hk

Stock Data

| | |
|--------------------------|-------------|
| Mkt Cap (HK\$ mn) | 15,681 |
| Avg 3 mths t/o (HK\$ mn) | 45.76 |
| 52w High/Low (HK\$) | 27.65/10.80 |
| Total Issued Shares (mn) | 821 |
| Source: Bloomberg | |

Shareholding Structure

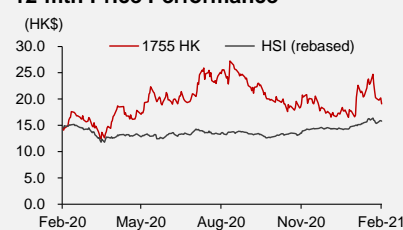
| | |
|--------------|-------|
| Wang Zhenhua | 73.2% |
| Free float | 26.8% |
| Source: HKEx | |

Share Performance

| | Absolute | Relative |
|--------|----------|----------|
| 1-mth | 13.7% | 5.7% |
| 3-mth | 9.3% | -7.0% |
| 6-mth | -19.5% | -32.8% |
| 12-mth | 48.5% | 33.6% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Financial Summary

| Income statement | | | | | | Cash flow summary | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--|--------------|--------------|--------------|--------------|--------------|
| YE Dec 31 (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E | YE Dec 31 (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E |
| Revenue | 1,173 | 2,024 | 3,086 | 4,308 | 5,485 | Profit before tax | 213 | 392 | 625 | 883 | 1,136 |
| Property management services | 732 | 849 | 1,491 | 2,162 | 2,800 | D&A | 3 | 10 | 4 | 5 | 5 |
| Developer VAS | 297 | 648 | 725 | 813 | 910 | Change in working capital | 15 | 219 | 306 | 439 | 383 |
| Community VAS | 48 | 176 | 408 | 694 | 1,001 | Others | (46) | (76) | (144) | (203) | (261) |
| Smart community services | 97 | 351 | 461 | 639 | 773 | Net cash from operating | 186 | 545 | 792 | 1,124 | 1,263 |
| Cost of sales | (828) | (1,424) | (2,179) | (3,058) | (3,875) | Capex | (2) | (4) | (5) | (5) | (5) |
| Gross Profit | 345 | 600 | 907 | 1,250 | 1,610 | JV/Associates | - | 1 | 2 | 3 | 4 |
| Other income | 11 | 25 | 30 | 25 | 25 | Others | 12 | (260) | (169) | (3) | (4) |
| Selling expenses | (7) | (11) | (19) | (26) | (33) | Net cash from investing | 9 | (264) | (172) | (5) | (5) |
| Administrative expenses | (148) | (234) | (278) | (345) | (439) | Equity raised | 538 | - | - | - | - |
| Other gains/(losses) | 18 | 6 | - | - | - | Change of debts | - | - | - | - | - |
| Impairment | (12) | (10) | (15) | (22) | (27) | Others | (108) | (225) | (147) | (202) | (285) |
| Operating profit | 207 | 375 | 625 | 883 | 1,136 | Net cash from financing | 430 | (225) | (147) | (202) | (285) |
| Finance cost | 6 | 17 | - | - | - | Net change in cash | 625 | 56 | 472 | 917 | 908 |
| Pre-tax Profit | 213 | 392 | 625 | 883 | 1,136 | Cash at the beginning of the year | 638 | 1,281 | 1,339 | 1,811 | 2,728 |
| Income tax | (48) | (90) | (144) | (203) | (261) | Exchange difference | 19 | 2 | - | - | - |
| PROFIT FOR THE YEAR | 165 | 302 | 482 | 680 | 875 | Cash at the end of the year | 1,281 | 1,339 | 1,811 | 2,728 | 3,662 |
| Non-controlling interest | (13) | (20) | (34) | (48) | (70) | Key ratios | | | | | |
| Net Profit attribute to shareholders | 152 | 282 | 448 | 633 | 805 | YE Dec 31 | FY18A | FY19A | FY20E | FY21E | FY22E |
| Balance sheet | | | | | | Sales mix (%) | | | | | |
| YE Dec 31 (RMB mn) | FY18A | FY19A | FY20E | FY21E | FY22E | Property management services | 62.4 | 41.9 | 48.3 | 50.2 | 51.1 |
| Non-current assets | 55 | 148 | 149 | 151 | 152 | Developer VAS | 25.3 | 32.0 | 23.5 | 18.9 | 16.6 |
| Property, plant and | 8 | 9 | 10 | 10 | 10 | Community VAS | 4.1 | 8.7 | 13.2 | 16.1 | 18.3 |
| Others | 46 | 139 | 139 | 141 | 142 | Smart community services | 8.2 | 17.4 | 14.9 | 14.8 | 14.1 |
| Current assets | 1,518 | 2,052 | 2,741 | 3,951 | 5,146 | Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Inventories | 12 | 11 | 16 | 23 | 29 | Profit & loss ratios (%) | | | | | |
| Trade and other receivables | 225 | 363 | 563 | 789 | 1,032 | Gross margin | 29.4 | 29.6 | 29.4 | 29.0 | 29.4 |
| Cash and cash equivalents | 1,281 | 1,339 | 1,811 | 2,728 | 3,662 | Net margin | 13.0 | 13.9 | 14.5 | 14.7 | 14.7 |
| Others | - | 339 | 351 | 411 | 481 | Effective tax rate | 22.7 | 23.0 | 23.0 | 23.0 | 23.0 |
| Total assets | 1,572 | 2,200 | 2,890 | 4,102 | 5,298 | Growth (%) | | | | | |
| Current liabilities | 689 | 1,215 | 1,676 | 2,347 | 2,980 | Revenue | 35.4 | 72.5 | 52.5 | 39.6 | 27.3 |
| Trade and other payables | 417 | 774 | 1,089 | 1,529 | 1,938 | Gross profit | 42.4 | 73.9 | 51.2 | 37.9 | 28.8 |
| Others | 272 | 441 | 586 | 819 | 1,042 | Operating profit | 95.2 | 81.0 | 66.6 | 41.3 | 28.6 |
| Non-current liabilities | 6 | 18 | 13 | 13 | 13 | Net profit | 107.3 | 85.3 | 58.8 | 41.3 | 27.2 |
| Deferred income tax liabilities | 5 | 13 | 13 | 13 | 13 | Balance sheet ratios | | | | | |
| Others | 1 | 4 | - | - | - | Current ratio (x) | 2.2 | 1.7 | 1.6 | 1.7 | 1.8 |
| Total liabilities | 694 | 1,233 | 1,689 | 2,360 | 2,993 | Receivable turnover days | 40 | 47 | 55 | 58 | 62 |
| Equity to shareholders | 855 | 924 | 1,125 | 1,618 | 2,262 | Returns (%) | | | | | |
| Non-controlling interests | 23 | 43 | 77 | 124 | 194 | ROE | 17.8 | 30.5 | 39.8 | 39.1 | 35.5 |
| Total Equity | 878 | 967 | 1,201 | 1,742 | 2,467 | ROA | 9.7 | 12.8 | 15.5 | 15.4 | 15.2 |
| Source: Company data, CMBIS estimates | | | | | | Per share | | | | | |
| | | | | | | EPS (RMB) | 0.24 | 0.34 | 0.55 | 0.77 | 0.98 |
| | | | | | | DPS (RMB) | 0.10 | 0.18 | 0.25 | 0.35 | 0.44 |
| | | | | | | BVPS (RMB) | 1.06 | 1.16 | 1.45 | 2.11 | 2.99 |

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| | |
|------------------|---|
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| NOT RATED | : Stock is not rated by CMBIS |

| | |
|-----------------------|---|
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CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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