

# Redsun Services (1971 HK)

## FY20 earnings beat, with quality M&As to kick-start scale expansion

Redsun Services delivered strong FY20 results with core earnings up 63% to RMB93mn (beating our estimates by 10%). Management guides 50% revenue/net profit CAGR up to 2023, and we could see 60% earnings growth in 2021E as Redsun's acquisition of Wuhan Huidehang may boost earnings by 30%. As for 2022E/23E, the Company may rely more on 3<sup>rd</sup>-party expansion which may contribute 30-40% of new contracted GFA (vs. 15% in 2020) as well as VAS. We raise earnings forecast for 2022E/23E by 7.9%/12.7% and **maintain BUY** on Redsun as an attractive name among small players.

- **Redsun delivered strong 2020 results.** Managed GFA was up 71% to 27mn sq m, with 52% from third-party (2019: 30%). Revenue grew 53% YoY to RMB768mn driven by strong VAS performance (+311% YoY). Segment wise, basic PM growth (+40% YoY) was slower than expected but VAS acceleration exceeded our expectations, contributing to 14% of revenue, closing in on industry average of ~15%. At bottom line, core profit (excl. listing expenses) grew 63% YoY, beating our estimates by 10%. The Company declared a dividend of RMB0.05/share, representing 31% payout ratio.
- **Management guides 50% revenue/NP CAGR in next three years.** Company guided 50% revenue/NP CAGR in the next three years, and aimed for 60% of managed GFA to come from third-party (incl. M&A) by 2023. We see some uncertainties on third-party execution, but community VAS should sustain high growth due to AM services (car-park sales, 44% of 2020 VAS revenue) having 3-4 years of sellable reserve. Furthermore, we think many of Redsun's initiatives, such as commercial projects, new VAS tryouts in community retail, and city services can be promising.
- **Some M&A to accelerate scaling, but recent acquisitions have been margin accretive.** The Company suggests 60% of third-party GFA gain in 2021 will come from M&A. However, we think there is less of the usual concern on M&A quality, because Redsun's acquisitions since IPO have been profitable (2020 NPM: Wuhan Huidehang - 24%, Chuzhou Yurun - 12%, vs. 12% of Redsun), and Redsun plans to focus its M&A effort in the YRD where PM fees are generally higher with less chance of margin dilution.
- **Raise 2021E/22E earnings forecast and Maintain BUY.** We raise 2021E/22E earnings by 7.9%/12.7%. Currently Redsun trades at 6.3x 2022E P/E vs. industry average 15x, which is quite attractive. **Maintain BUY.**

### Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	503	768	1,354	2,010	2,814
YoY growth (%)	44.1	52.7	76.4	48.4	0.0
Core Profit (RMB mn)	59	93	164	242	342
YoY growth (%)	N.A.	0.17	0.40	0.58	0.82
EPS (RMB)	N.A.	N.A.	135.1	47.7	40.8
Consensus EPS (RMB)	N.A.	0.19	0.36	0.55	N.A.
P/E (x)	N.A.	22.0	9.4	6.3	4.5
P/B (x)	N.A.	2.1	2.8	2.5	2.1
Yield (%)	N.A.	1.4	3.2	4.7	6.7
ROE (%)	28.4	10.1	31.7	44.3	52.9

Source: Company data, Bloomberg, CMBIS estimates

**BUY (Maintain)**

Target Price **HK\$9.37**  
 (Previous TP **HK\$9.37**)  
 Up/Downside **+110.1%**  
 Current Price **HK\$4.46**

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### Stock Data

Mkt Cap (HK\$ mn)	1,851
Avg 3 mths t/o (HK\$ mn)	4.72
52w High/Low (HK\$)	7.72/4.08
Total Issued Shares (mn)	415

Source: Bloomberg

### Shareholding Structure

Redsun Group	72.8%
Free float	27.2%

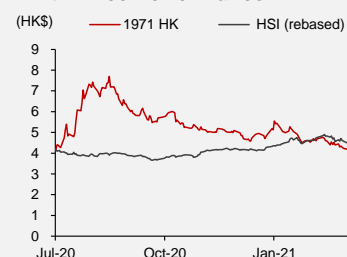
Source: HKEx

### Share Performance

	Absolute	Relative
1-mth	1.1%	8.7%
3-mth	-7.3%	-14.3%
6-mth	-21.0%	-34.2%
12-mth	N.A.	N.A.

Source: Bloomberg

### 12-mth Price Performance



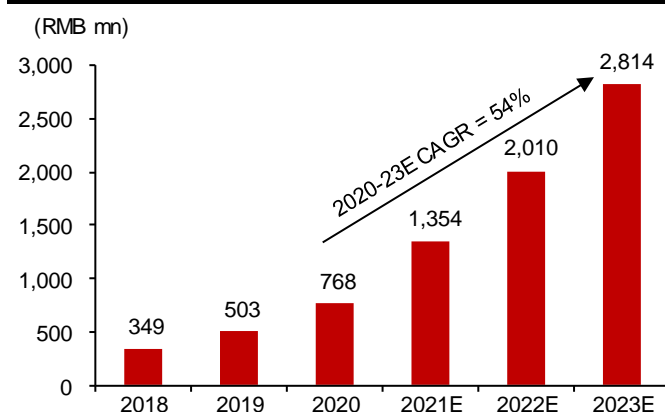
Source: Bloomberg

**Auditor: Ernst & Young**

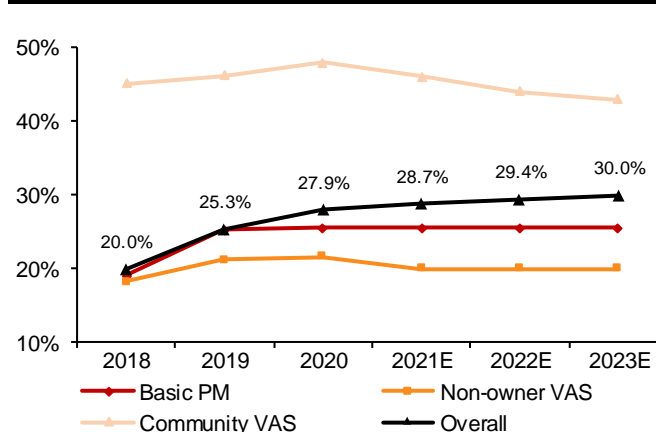
**Figure 1: Earnings revision**

RMB mn	New		Old		Difference	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	1,354	2,010	1,146	1,541	18.2%	30.4%
Gross Profit	389	590	319	440	22.0%	34.2%
Operating profit	231	347	206	293	12.3%	18.5%
Net profit	164	242	152	215	7.9%	12.7%
Gross Margin	28.7%	29.4%	27.8%	28.6%	0.9 ppt	0.8 ppt
Operating margin	17.1%	17.3%	18.0%	19.0%	-0.9 ppt	-1.7 ppt
Net Margin	12.1%	12.1%	13.3%	14.0%	-1.2 ppt	-1.9 ppt

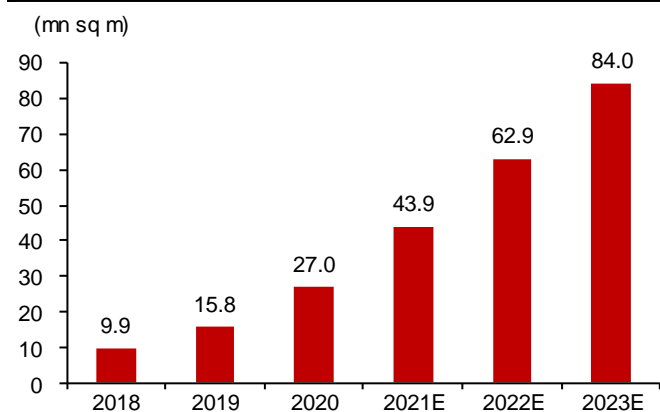
Source: Company data, CMBIS estimates

**Figure 2: Revenue**

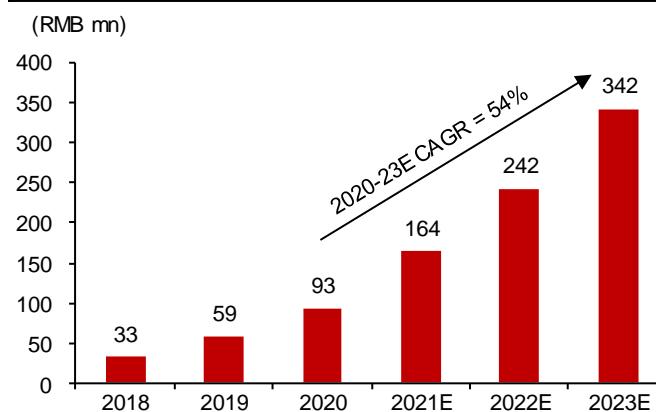
Source: Company data, CMBIS estimates

**Figure 3: Gross profit margin**

Source: Company data, CMBIS estimates

**Figure 4: GFA under management**

Source: Company data, CMBIS estimates

**Figure 5: Adjusted net profit**

Source: Company data, CMBIS estimates

## Financial Summary

### Income statement

YE Dec 31 (Rmb mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>503</b>	<b>768</b>	<b>1,354</b>	<b>2,010</b>	<b>2,814</b>
Basic PM	355	496	896	1,288	1,726
Non-owner VAS	121	161	193	232	279
Community VAS	27	110	265	490	809
Cost of sales	(376)	(554)	(965)	(1,419)	(1,970)
<b>Gross profit</b>	<b>127</b>	<b>214</b>	<b>389</b>	<b>590</b>	<b>844</b>
Other income, net	3	20	21	22	23
Selling and marketing	(0)	(1)	(3)	(4)	(6)
Administrative expenses	(51)	(104)	(176)	(261)	(366)
Other expenses	(0)	-	-	-	-
Impairment	(0)	(2)	-	-	-
<b>Operating profit</b>	<b>78</b>	<b>108</b>	<b>231</b>	<b>347</b>	<b>495</b>
Share from associates	-	-	-	-	-
Finance costs	(0)	(0)	-	-	-
Exceptional	0	(19)	-	-	-
<b>Pre-tax Profit</b>	<b>78</b>	<b>108</b>	<b>231</b>	<b>347</b>	<b>495</b>
Income tax	(21)	(35)	(58)	(87)	(124)
<b>PROFIT FOR THE YEAR</b>	<b>57</b>	<b>73</b>	<b>174</b>	<b>260</b>	<b>372</b>
Non-controlling interest	2	(4)	(10)	(18)	(30)
<b>Net profit to shareholders</b>	<b>59</b>	<b>70</b>	<b>164</b>	<b>242</b>	<b>342</b>

### Balance sheet

YE Dec 31 (Rmb mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>37</b>	<b>91</b>	<b>202</b>	<b>263</b>	<b>324</b>
PP&E	9	14	52	73	94
Goodwill	12	31	68	88	108
Others	15	46	82	102	122
<b>Current assets</b>	<b>503</b>	<b>1,017</b>	<b>913</b>	<b>1,090</b>	<b>1,391</b>
Trade receivables	26	72	383	329	404
Due from related	263	88	23	23	24
Cash and cash equivalents	179	826	476	708	932
Others	35	30	30	30	30
<b>Total Asset</b>	<b>540</b>	<b>1,108</b>	<b>1,116</b>	<b>1,353</b>	<b>1,715</b>
<b>Current liabilities</b>	<b>320</b>	<b>377</b>	<b>549</b>	<b>739</b>	<b>971</b>
Payables & accruals	172	222	395	585	818
Due to related companies	38	2	-	-	-
Interest-bearing bank	-	-	-	-	-
Others	110	153	153	153	153
<b>Non-current liabilities</b>	<b>2</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>10</b>
Deferred taxes liabilities	2	10	10	10	10
<b>Total liabilities</b>	<b>322</b>	<b>387</b>	<b>559</b>	<b>749</b>	<b>982</b>
<b>Equity to shareholders</b>	<b>208</b>	<b>690</b>	<b>517</b>	<b>546</b>	<b>646</b>
Non-controlling interests	9	30	40	58	88
<b>Total Equity</b>	<b>217</b>	<b>720</b>	<b>557</b>	<b>604</b>	<b>733</b>

### Cash flow summary

YE Dec 31 (Rmb mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Profit before tax</b>	<b>78</b>	<b>108</b>	<b>231</b>	<b>347</b>	<b>495</b>
D&A	3	1	2	2	2
Chg in working capital	34	3	(138)	245	157
Others	(4)	(35)	(58)	(87)	(124)
<b>Net cash from operating</b>	<b>111</b>	<b>77</b>	<b>37</b>	<b>507</b>	<b>531</b>
FA Capex & Inv, net	(4)	(3)	(3)	(3)	(3)
Associated companies	(55)	(37)	(366)	(200)	(200)
Others	31	-	-	-	-
<b>Net cash from investing</b>	<b>(28)</b>	<b>(40)</b>	<b>(369)</b>	<b>(203)</b>	<b>(203)</b>
Equity raised	99	460	-	-	-
Chg of debts	(5)	-	-	-	-
Others	(35)	117	13	(73)	(104)
<b>Net cash from financing</b>	<b>58</b>	<b>577</b>	<b>13</b>	<b>(73)</b>	<b>(104)</b>
<b>Net change in cash</b>	<b>141</b>	<b>615</b>	<b>(318)</b>	<b>232</b>	<b>224</b>
Cash at the beginning of the	38	179	794	476	708
<b>Cash at the end of the year</b>	<b>179</b>	<b>794</b>	<b>476</b>	<b>708</b>	<b>932</b>

### Key ratios

YE Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Basic PM	70.5	64.6	66.2	64.1	61.4
Non-owner VAS	24.1	21.0	14.3	11.5	9.9
Community VAS	5.3	14.4	19.6	24.4	28.7
Total	100.0	100.0	100.0	100.0	100.0
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	25.3	27.9	28.7	29.4	30.0
Operating margin	15.6	14.1	17.1	17.3	17.6
Net margin	11.7	9.1	12.1	12.1	12.1
Effective tax rate	27.1	32.4	25.0	25.0	25.0
<b>Growth (%)</b>					
Revenue	44.1	52.7	76.4	48.4	40.0
Gross profit	82.7	68.2	81.5	51.8	42.9
EBIT	73.4	38.2	113.4	50.1	42.7
Net profit	79.0	18.1	135.1	47.7	41.1
<b>Balance sheet ratios</b>					
Current ratio (x)	1.6	2.7	1.7	1.5	1.4
Receivable turnover days	19	34	34	34	34
Payables turnover days	42	32	32	32	32
Inventory turnover days	0.02	0.03	0.03	0.03	0.03
Net debt / total equity ratio (%)	Net	Net	Net	Net	Net
<b>Returns (%)</b>					
ROE	28.4	10.1	31.7	44.3	52.9
ROA	10.6	6.6	15.6	19.2	21.7
<b>Per share</b>					
EPS (RMB)	n.a.	0.17	0.40	0.58	0.82
DPS (RMB)	n.a.	0.05	0.12	0.18	0.25
BVPS (RMB)	n.a.	1.74	1.34	1.46	1.76

Source: Company data, CMBIS estimates

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