

S-Enjoy Service (1755 HK)

Successful VAS expansion paves way for triple earnings in three years

S-Enjoy delivered solid results with net profit +60% YoY, beating consensus but in line with our forecasts, thanks to improved PM margins and VAS outperformance through new services. We think the Company's three-year GFA target (180mn sq m new managed GFA) requires further acceleration of third-party expansion, but earnings target (triple NP in next three years) could be achieved through VAS. We revise up 2021E/22E earnings by 8%/17% due to bright VAS outlook and visible GFA expansion in the near term, and raise TP to HK\$34.6 reflecting 25x 2022E P/E. **Maintain BUY.**

- 2020 earnings beat on VAS.** Revenue was up 41.6% YoY to RMB2,866mn driven by Basic PM +48% YoY, Community VAS + 183% and others +10%. Community VAS revenue was up 182.6% YoY to RMB498mn, contributing to 17% of revenue, beating our estimates thanks to accelerated retail services and new services in catering & elevator maintenance. GPM improved by 1.1ppt YoY to 30.7% mainly due to higher PM efficiency, bringing segment GPM up to 31.3% from 28.5% in 2019. Net profit came at RMB452mn (+60% YoY) in 2020, beating consensus but in line with our forecasts. The Company declared a dividend of RMB0.275/share, representing 50% payout ratio (52% in 2019).
- Look to non-traditional services to bolster VAS.** In 2020, non-cyclical, non-traditional services (retail, catering, elevator) contributed RMB187mn (vs. RMB12mn in 2019), or 38% of VAS income. Entry into these services were made possible by 1) acquisition of Chengyue Times opens up catering services for non-residential tenants; 2) forming JV with service providers for Mitsubishi and Hitachi to kick-start elevator maintenance. S-Enjoy follows a similar path to CGS in terms of horizontal expansion and enjoys a similar first-move advantage, and thus could become a VAS winner after CGS.
- Company guides revenue and NP to triple in three years.** In terms of GFA expansion, S-Enjoy plans to follow a 30%/30%/40% distribution between new contract gains from parentco/M&A/third-party bidding. The Company targets avg. 60/72mn sq m new managed/contracted GFA per year for the next three years to reach 280/420mn sq m by 2023, with 50% managed GFA from third-party bidding & M&A (2020: 40%). As for earnings, the Company guides for both revenue and NP to triple in three years (44% three-year CAGR). According to our estimates, the Company's three-year GFA target seems ambitious as it requires avg. 28mn sq m contract gain through third-party bidding (vs. 15mn sq m in 2020), but 2021 target of +50mn sq m managed GFA is highly achievable given 100mn sq m reserve, and earnings target could still be achieved through VAS.
- Raise TP to HK\$34.6.** We revise up 2021E/22E earnings by 8%/17% due to bright VAS outlook and visible GFA expansion in the near term, and raise TP to HK\$34.6 at 25x 2022E P/E. **Maintain BUY.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	1,173	2,024	2,866	4,470	6,136
YoY growth (%)	35.4	72.5	41.6	55.9	37.3
Net income (RMB mn)	152	282	452	682	943
EPS (RMB)	0.24	0.34	0.55	0.83	1.15
YoY growth (%)	N.A.	42.9	60.4	50.7	38.4
Consensus EPS (RMB)	0.24	0.34	0.53	0.80	1.17
P/E (x)	N.A.	55.3	34.5	22.9	16.5
P/B (x)	N.A.	16.3	12.9	9.0	6.4
Yield (%)	N.A.	0.9	1.4	2.2	3.0
ROE (%)	17.8	30.5	35.3	39.3	40.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$34.60**
 (Previous TP **HK\$29.50**)
 Up/Downside **+51.3%**
 Current Price **HK\$22.90**

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)	18,800
Avg 3 mths t/o (HK\$ mn)	61.60
52w High/Low (HK\$)	27.65/10.80
Total Issued Shares (mn)	821
Source: Bloomberg	

Shareholding Structure

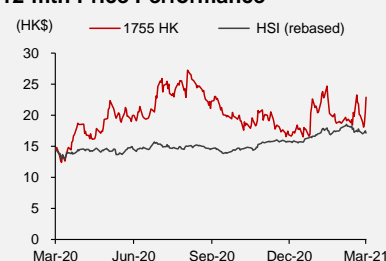
Wang Zhenhua	73.2%
Free float	26.8%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	9.5%	12.4%
3-mth	21.7%	9.8%
6-mth	-7.8%	-23.2%
12-mth	32.3%	13.6%

Source: Bloomberg

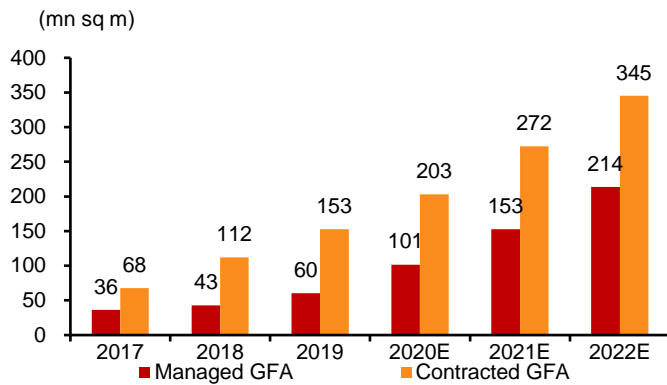
12-mth Price Performance



Source: Bloomberg

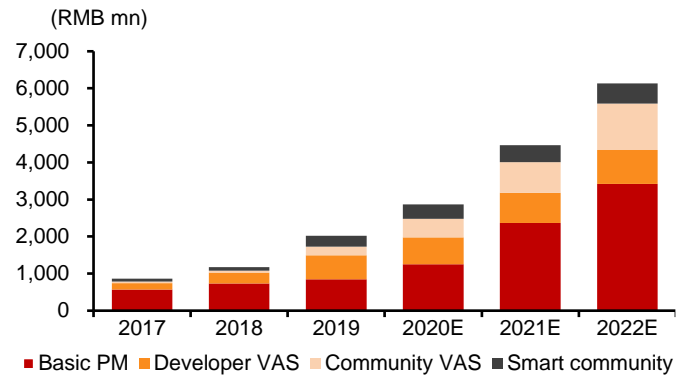
Auditor: PwC

Figure 1: GFA under management



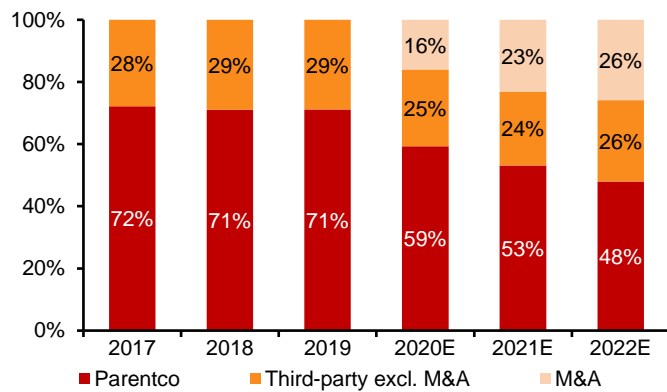
Source: Company data, CMBIS estimates

Figure 2: Revenue



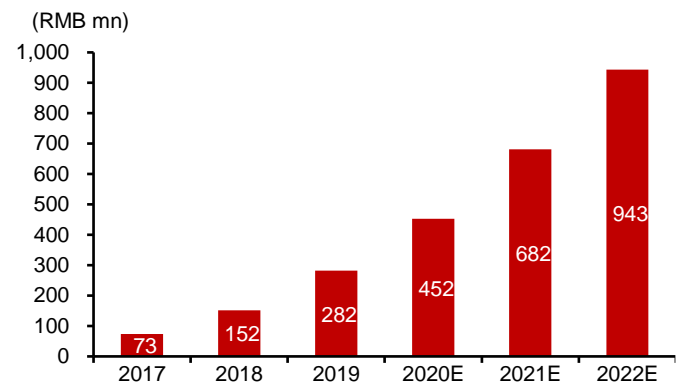
Source: Company data, CMBIS estimates

Figure 3: GFA mix by source



Source: Company data, CMBIS estimates

Figure 4: Net profit



Source: Company data, CMBIS estimates

Figure 5: Earnings revision

RMB mn	New		Old		Diff (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	4,470	6,136	4,148	5,153	7.8%	19.1%
Gross Profit	1,401	1,955	1,185	1,476	18.2%	32.5%
Operating profit	967	1,354	926	1,135	4.4%	19.3%
Net profit	682	943	660	804	3.4%	17.3%
EPS (RMB)	0.83	1.15	0.80	0.98	3.2%	17.3%
Gross Margin	31.3%	31.9%	28.6%	28.6%	2.7ppts	3.3ppts
Operating Margin	21.6%	22.1%	22.3%	22.0%	-0.7ppts	0ppts
Net Margin	15.3%	15.4%	15.9%	15.6%	-0.6ppts	-0.2ppts

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	1,173	2,024	2,866	4,470	6,136
Property management services	732	849	1,255	2,370	3,424
Developer VAS	297	648	725	813	910
Community VAS	48	228	498	824	1,253
Smart community	97	300	389	463	549
Cost of sales	(828)	(1,424)	(1,986)	(3,069)	(4,181)
Gross Profit	345	600	881	1,401	1,955
Other income	11	25	58	31	31
Selling expenses	(7)	(11)	(23)	(36)	(49)
Administrative expenses	(148)	(234)	(258)	(402)	(552)
Other gains/(losses)	18	6	(23)	-	-
Impairment	(12)	(10)	(21)	(27)	(31)
Operating profit	207	375	614	967	1,354
Finance cost	6	17	22	-	-
Pre-tax Profit	213	392	636	967	1,354
Income tax	(48)	(90)	(147)	(222)	(311)
PROFIT FOR THE YEAR	165	302	489	745	1,042
Non-controlling interest	(13)	(20)	(37)	(63)	(99)
Net Profit attribute to	152	282	452	682	943

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Non-current assets	55	148	329	327	327
Property, plant and equipment	8	9	14	14	14
Others	46	139	314	313	313
Current assets	1,518	2,052	2,985	4,117	5,691
Inventories	12	11	18	23	31
Trade and other receivables	225	363	593	952	1,280
Cash and cash equivalents	1,281	1,339	1,882	2,650	3,889
Others	-	339	493	492	492
Total assets	1,572	2,200	3,314	4,444	6,018
Current liabilities	689	1,215	1,856	2,476	3,349
Trade and other payables	417	774	1,135	1,534	2,091
Others	272	441	722	942	1,258
Non-current liabilities	6	18	48	43	43
Deferred income tax	5	13	43	43	43
Others	1	4	5	-	-
Total liabilities	694	1,233	1,904	2,519	3,392
Equity to shareholders	855	924	1,282	1,734	2,336
Non-controlling interests	23	43	128	191	290
Total Equity	878	967	1,410	1,925	2,626

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Profit before tax	213	392	636	967	1,354
D&A	3	10	4	5	5
Change in working capital	15	219	362	257	537
Others	(46)	(76)	(147)	(222)	(311)
Net cash from operating	186	545	855	1,007	1,584
Capex	(2)	(4)	(5)	(5)	(5)
JV/Associates	-	1	2	3	4
Others	12	(260)	(169)	(3)	(4)
Net cash from investing	9	(264)	(172)	(5)	(5)
Equity raised	538	-	-	-	-
Change of debts	-	-	-	-	-
Others	(108)	(225)	(147)	(226)	(341)
Net cash from financing	430	(225)	(147)	(226)	(341)
Net change in cash	625	56	535	776	1,238
Cash at the beginning of the year	638	1,281	1,339	1,874	2,650
Exchange difference	19	2	-	-	-
Cash at the end of the year	1,281	1,339	1,874	2,650	3,889

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Sales mix (%)					
Property management services	62.4	41.9	43.8	53.0	55.8
Developer VAS	25.3	32.0	25.3	18.2	14.8
Community VAS	4.1	11.2	17.4	18.4	20.4
Smart community services	8.2	14.8	13.6	10.4	8.9
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	29.4	29.6	30.7	31.3	31.9
Net margin	13.0	13.9	15.8	15.2	15.4
Effective tax rate	22.7	23.0	23.1	23.0	23.0
Growth (%)					
Revenue	35.4	72.5	41.6	55.9	37.3
Gross profit	42.4	73.9	46.8	59.1	39.5
Operating profit	95.2	81.0	63.7	57.5	39.9
Net profit	107.3	85.3	60.4	50.7	38.4
Balance sheet ratios					
Current ratio (x)	2.2	1.7	1.6	1.7	1.7
Receivable turnover days	40	47	55	58	62
Returns (%)					
ROE	17.8	30.5	35.3	39.3	40.4
ROA	9.7	12.8	13.7	15.3	15.7
Per share					
EPS (RMB)	0.24	0.34	0.55	0.83	1.15
DPS (RMB)	0.10	0.18	0.28	0.42	0.58
BVPS (RMB)	1.06	1.16	1.48	2.11	2.96

Source: Company data, CMBIS estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

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

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.