

Sino-Ocean Service (6677 HK)

1H21 results: Beat

Results highlight: The Company delivered 73% growth in 1H2021 earnings at RMB261mn, beating its profit alert's 60% by 13ppt. Their total revenue grew 53% YoY to RMB1.39bn in 1H21 mainly driven by the community VAS segment which contributed a 265% YoY growth and developers VAS segment (+74% YoY). GP margin widened 3.4ppt YoY to 31.9% in 1H21 due to higher portion of Community VAS. As a result, NPM increased to 18.9% in 1H21 (+2.2ppt YoY) and NP came in at RMB261mn, 63% of our 2021E estimates (vs. 59% in 1H/20).

- Community VAS business** grew 265% YoY in 1H21, driven by the increase of parking lot management income (+47% YoY) and income recorded by expanding the house brokerage service (+1294% YoY; RMB104.6mn in 1H21 vs. RMB7.5mn). In 1H21, brokerage services accounted for 28% vs 1H20's 7% in community VAS business. Moreover, the GPM for community VAS (50%) is way higher than PM (27%) and developer VAS (20%), which contributed strongly toward pulling up GPM by 3.4ppt.
- Developer VAS** business recorded a 74% YoY growth in revenue, led by the increased proportion of property engineering services (42% of total developer VAS revenue). Property engineering services' revenue was up 312.4% YoY from RMB27.1mn in 1H20 to RMB111.8mn in 1H21.
- On the traditional PM business**, the proportion of third-party increased from 32.9% in 1H20 to 39% in 1H21 which is in line with the industry trend to further growth third-party contributions.
- Next big thing - Commercial operation:** On 14 Jun, the Company announced to add the commercial operation business of some shopping malls and offices into its scope. So far it has 8 shopping malls and 11 offices subject to providing commercial services. With its strong pipeline (6+) and high margin, we think this will bring a more meaningful contribution starting from 2H21 and estimate net profits contribution to be RMB30mn (or 7% of 2021E net profits).
- Our View:** Given strong results, we think market would react positively. We maintain our Buy rating on potential re-rating due to commercial operation. It is currently trading at 8x 2022E PE and looks attractive. Please tune-in for the Company's conference call today at 10:30am to dive in deeper into the solid growth figures.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	1,830	2,023	2,827	4,075	5,473
YoY growth (%)	13.6	10.6	39.7	44.2	34.3
Net income (RMB mn)	207	258	406	608	820
EPS (RMB)	N.A.	0.29	0.34	0.51	0.69
YoY growth (%)	N.A.	N.A.	19.7	49.8	35.0
Consensus EPS (RMB)	N.A.	0.25	0.35	0.47	1.47
P/E (x)	N.A.	13.7	11.4	7.6	5.7
P/B (x)	N.A.	2.4	2.0	1.7	1.4
Yield (%)	N.A.	1.4	3.5	5.2	7.1
ROE (%)	49.4	12.7	17.3	21.7	24.5
Net gearing (%)	452.4	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price HK\$7.41
 (Previous TP HK\$7.41)
Up/Downside +48.5%
Current Price HK\$4.99

China Property Service Sector

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

Stock Data

Mkt Cap (HK\$ mn)	5,908
Avg 3 mths t/o (HK\$ mn)	15.39
52w High/Low (HK\$)	6.88/3.81
Total Issued Shares (mn)	1,184

Source: Bloomberg

Shareholding Structure

Sino-Ocean Group	67.6%
Free float	32.4%

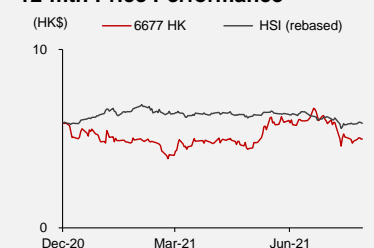
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-20.6%	-17.6%
3-mth	10.7%	17.8%
6-mth	1.0%	14.9%
12-mth	N.A.	N.A.

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- "New commercial operation business on the agenda" – 22 Mar 2021
- "Re-rating on potential commercial operating service; Initiate with Buy" – 12 Mar 2021

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<https://euromoney.com/brokers>

Figure 1: 2020 results summary

RMB mn	1H20	1H21	YoY	1H/2020	1H/2021E
Revenue	904	1,385	53%	45%	49%
- Property management services	648	745	15%	48%	42%
- Developer VAS	154	268	74%	42%	60%
- Community VAS	102	372	265%	32%	70%
- Commercial operations	-	-	N.A.	N.A.	N.A.
Gross profit	257	441	72%	50%	58%
Net profit	151	261	73%	59%	63%
EPS (RMB)	0.17	0.22	29%	78%	63%
DPS (RMB)	-	-			
Dividend payout ratio	-	-			
GP Margin	28.5%	31.9%	3.4 ppt		
Net Margin	16.7%	18.9%	2.2 ppt		
Managed GFA (mn sq m)	42.3	57.8	37%	93%	73%
Contracted GFA (mn sq m)	61.9	82.6	33%	87%	79%

Source: Company data, CMBIS estimates

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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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