

Redsun Services (1971 HK)

Strong 1H21 Results

The Company delivered 60% growth in 1H21 core earnings (excluding listing fees) at RMB60mn, in line with its profit alert. The total revenue grew 64% YoY to RMB529mn in 1H21 mainly driven by its Community VAS segments (+230% YoY). GPM expanded 2.6ppt YoY to 28.9% in 1H21 attributable to the strong growth in its highest margin business – community VAS (48.5%; +1.7ppt from 1H20). As a result, NPM was lifted to 11.3% in 1H21 (+4.1ppt YoY) and NP came in at RMB60mn, up 157% YoY and 36% of our 2021E estimates (vs. 33% in 1H20). 1H21 EPS was RMB0.14/share (+75% YoY) and the Company decided not to declare an interim dividend.

- Expansion through third-party bidding and M&A:** The Company's full mandate bidding with third-party has soared in 1H20, adding 4.33mn sq m (+485% YoY) with 28 new projects compared with 10 from 1H20. It is worth to note that third-party contribution has elevated to 60% in 1H21 (37% in 1H20) and covers a wider array including industrial parks, hospitals and schools. The Company has given a guidance to reach 70% third-party contribution by 2023. On another note, the Company's M&A growth accelerated as the Company acquires 80% equity in both Wuhan Huideheng and Gaoli PM with expected annual revenue, reaching RMB129mn in 2021.
- Community VAS** rose 230% YoY to RMB94mn in 1H21 based on the following reasons: 1) common area VAS's revenue has increased 382% YoY attributable to strategic cooperation with China Mobile and Focus Media on public space advertisements; 2) the revenue for home decoration increased 538% YoY after adopting self-operation mode and VR display.
- Maintain Buy:** We maintain our Buy rating and the Company is currently trading at 6x 2022E PE, which looks attractive.

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 **+112.0%**
 Current Price **HK\$4.42**

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	1,834
Avg 3 mths t/o (HK\$ mn)	4.44
52w High/Low (HK\$)	7.72/3.69
Total Issued Shares (mn)	415

Source: Bloomberg

Shareholding Structure

Redsun Group	72.8%
Free float	27.2%

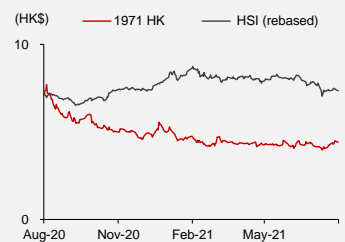
Source: HKEx

Share Performance

	Absolute	Relative
z1-mth	3.7%	10.0%
3-mth	4.2%	10.7%
6-mth	-4.7%	9.0%
12-mth	-37.6%	-40.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

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Figure 1: 1H2021 results summary

RMB mn	1H20	1H21	YoY	1H/2020	1H/2021E
Revenue	323	529	64%	42%	39%
- Basic PM	226	350	55%	46%	39%
- Non-owner VAS	69	85	23%	43%	44%
- Community VAS	28	94	230%	26%	35%
Gross profit	85	153	80%	40%	39%
Net profit	23	60	157%	33%	36%
Adjusted profit	37	64	71%		
EPS (RMB)	0.08	0.14	75%	47%	35%
DPS (RMB)	-	-	N.A.	0%	0%
Dividend payout ratio	-	-	N.A.		
GP Margin	26.3%	28.9%	2.6 ppt		
Net Margin	7.2%	11.3%	4.1 ppt		
Managed GFA (mn sq m)	18.7	34.4	84%	69%	78%
Contracted GFA (mn sq m)	31.0	49.6	60%	78%	83%

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE Dec 31 (Rmb mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	503	768	1,354	2,010	2,814
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)
Gross profit	127	214	389	590	844
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)	-	-	-
Operating profit	78	108	231	347	495
Share from associates	-	-	-	-	-
Finance costs	(0)	(0)	-	-	-
Exceptional	0	(19)	-	-	-
Pre-tax Profit	78	108	231	347	495
Income tax	(21)	(35)	(58)	(87)	(124)
PROFIT FOR THE YEAR	57	73	174	260	372
Non-controlling interest	2	(4)	(10)	(18)	(30)
Net profit to shareholders	59	70	164	242	342

Balance sheet

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

Cash flow summary

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

Key ratios

YE Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
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
Profit & loss ratios (%)					
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
Growth (%)					
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
Balance sheet ratios					
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
Returns (%)					
ROE	28.4	10.1	31.7	44.3	52.9
ROA	10.6	6.6	15.6	19.2	21.7
Per share					
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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