

Sunac Services (1516 HK)

High visibility proven by solid 1H21; Reiterate Top Pick

With a solid beat in 1H21 driven by both topline and margins, we think 2021E earnings will come up with higher than the street expectation. This proves again its high visibility in earnings (+72% CAGR in 2020-23E) given 1) PM business to be backed by its solid third-party expansion proven in 1H21 and strong parentco support. 2) Community VAS to be fueled by further penetration rate improvement and new initiatives; 3) margins to remain high on scale effect and more Community VAS contribution. **Reiterate Top Pick** and it is currently trading at 20x 2022E PE, still 20% discount to market leaders despite higher growth. **Catalysts:** share-incentive plan to be announced in Sep; share buyback.

- 1H21 results – A solid beat:** The Company delivered 154% YoY growth in 1H21 earnings at RMB606mn and accounted for 49% of our 2021E estimate (40% in 1H/FY20). The total revenue grew 85% YoY to RMB3.3bn in 1H21 mainly driven by its Community VAS segment (+206% YoY) and growth in its basic PM segment (+94% YoY). GP Margin boosted 5.1ppt YoY to 31.0% in 1H21 in all segments. NPM also widened 5.0ppt YoY to 18.2% in 1H21.
- GP margin to stay stably high at 30%:** 1H21 GPM has seen an all-around increase to 31% (+5.1ppt YoY) with PM at 26.1% (+4.6ppt YoY); VAS to non-property at 38.1% (+6.1ppt YoY); and Community VAS at 42.9% (+7.4ppt YoY) in 1H21. The overall effect on GPM was credited to PM and Community VAS segment which were mainly driven by the scale effect/cost reduction (digitalization) and introduction of high-margin brokerage businesses. We expect Group GPM to stay at 30% level due to increasing scale effect for PM and higher contribution from Community VAS, vs 27.6% in 2020. In particular, GPM of PM/Community VAS will stay at 20-25% and +40% range.
- Third-party expansion continued rolling smoothly:** PM segment recorded RMB2.05bn in 1H21 (+94.3% YoY) mainly driven by increase in third-party GFA under management. On contracted GFA, third-party expansion in 1H21 (excl. M&A) increased by 460% YoY to 16mn sq m, higher than 2020 already. We think it will be on track to achieving our estimate of 36mn sq m. Together with the delivery from Sunac, we expect 2021E managed/contracted GFA to increase by 100mn and 120mn sq m, respectively, in line with guidance.
- Further penetration to drive Community VAS the second growth curve:** In 1H21, the Company's PM segment grew 206% YoY to RMB189mn, mainly driven by convenience services (+2027% YoY to RMB67mn in 1H21), brokerage business (+351% YoY) and home decoration (+279% YoY). Its contribution to the 1H21 group revenue has doubled to 6% vs. 3% in 1H20 which has beat our expectation (5% in 2021E). We expect its rapid growth to continue as annualized VAS/managed GFA is only at RMB2/sq m vs. industry average of RMB4/sq m. It shows penetration rate has huge room to improve and can support the segment together with new business initiatives.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	2,827	4,623	8,873	14,188	21,021
YoY growth (%)	85.5	155.1	74.6	48.6	36.5
Net income (RMB mn)	270	601	1,233	1,981	3,072
EPS (RMB)	0.12	0.25	0.51	0.83	1.28
YoY growth (%)	N.A.	N.A.	114.7	105.3	60.6
Consensus EPS (RMB)	N.A.	N.A.	0.41	0.65	0.92
P/E (x)	N.A.	64.1	31.2	19.5	12.6
P/B (x)	N.A.	N.A.	5.4	4.8	4.0
ROE (%)	73.5	6.2	12.4	17.4	22.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price **HK\$29.80**
 Up/Downside **+53.8%**
 Current Price **HK\$19.38**

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	83,174
Avg 3 mths t/o (HK\$ mn)	179.57
52w High/Low (HK\$)	29.4/11.43
Total Issued Shares (mn)	3,104

Source: Bloomberg

Shareholding Structure

Sunac Holdings	71.72%
Free float	28.28%

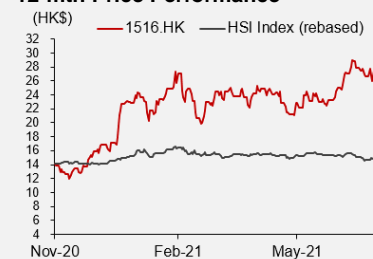
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	7.3%	10.3%
3-mth	6.0%	10.2%
6-mth	13.6%	20.3%
12-mth	N.A.	N.A.

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: 1H21 results summary

RMB mn	1H20	1H21	YoY	1H/2020	1H/2021E
Revenue	1,791	3,319	85%	39%	37%
- PM	1,053	2,046	94%	38%	35%
- VAS to non-property	676	1,085	60%	40%	42%
- Community VAS	62	189	206%	35%	47%
Gross profit	465	1,029	122%	36%	42%
Net profit	238	606	154%	40%	49%
EPS (RMB)	0.10	0.20	100%	40%	39%
DPS (RMB)	-	-			
Dividend payout ratio	-	-			
GP Margin	25.9%	31.0%	5.1 ppt		
Net Margin	13.3%	18.2%	5 ppt		
Managed GFA (mn sq m)	105.4	173.0	64%		
Contracted GFA (mn sq m)	232.1	322.0	39%		

Source: CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	2,827	4,623	8,873	14,188	21,021	Profit before tax	346	822	1,618	2,599	4,030
Property management	1,148	2,774	5,904	9,536	13,778	D&A	35	82	65	72	79
VAS to non-property	1,572	1,673	2,569	3,797	5,419	Change in working capital	353	270	1,588	2,057	2,689
Community VAS	107	176	399	855	1,824	Others	(27)	(151)	(390)	(606)	(924)
						Net cash from operating	707	1,024	2,881	4,122	5,873
Gross Profit	720	1,275	2,445	3,940	6,032	Capex	(8)	(13)	(16)	(40)	(40)
Other income	37	57	26	26	26	Capital Injection	-	-	(1)	-	-
Selling expenses	(19)	(29)	(44)	(71)	(105)	Others	611	(1,358)	(999)	(1,476)	(1,976)
Administrative expenses	(383)	(496)	(799)	(1,277)	(1,892)	Net cash from investing	603	(1,371)	(1,016)	(1,516)	(2,016)
Other gains/(losses)			-	-	-	Equity raised	-	7,592	-	-	-
Impairment	(3)	(15)	(18)	(28)	(42)	Change of debts	304	(713)	(615)	-	-
Operating profit	357	803	1,611	2,590	4,019	Others	(896)	1,750	225	(614)	(942)
						Net cash from financing	(592)	8,629	(390)	(614)	(942)
Pre-tax Profit	346	822	(2)	(2)	(2)	Net change in cash	718	8,282	1,475	1,991	2,915
						Cash at the beginning of the year	372	1,090	9,368	10,843	12,834
			1,618	2,599	4,030	Exchange difference	(0)	(4)	-	-	-
Income tax	(76)	(197)	(372)	(598)	(927)	Cash at the end of the year	1,090	9,368	10,843	12,834	15,750
PROFIT FOR THE YEAR	270	601	1,246	2,001	3,103						
						Key ratios					
						YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Balance sheet						Sales mix (%)					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	Property management	40.6	60.0	66.5	67.2	65.5
Non-current assets	153	1,949	2,497	3,964	5,926	VAS to non-property owners	55.6	36.2	29.0	26.8	25.8
Property, plant and equipment	29	59	69	79	89	Community VAS	3.8	3.8	4.5	6.0	8.7
Others	124	1,890	2,428	3,885	5,837	Total	100.0	100.0	100.0	100.0	100.0
Current assets	2,118	11,008	13,250	16,646	21,365	Profit & loss ratios (%)					
Inventories	82	41	129	205	300	Gross margin	25.5	27.6	27.6	27.8	28.7
Trade and other receivables	946	1,388	2,268	3,597	5,305	Net margin	9.5	13.0	13.9	14.0	14.6
Cash and cash equivalents	1,090	9,368	10,843	12,834	15,750	Effective tax rate	22.0	23.9	23.0	23.0	23.0
Others	-	211	10	10	10	Growth (%)					
Total assets	2,271	12,957	15,747	20,611	27,291	Revenue	53.5	63.5	91.9	59.9	48.2
Current liabilities	1,751	2,950	5,506	8,968	13,460	Gross profit	69.9	77.0	91.8	61.1	53.1
Trade and other payables	1,087	1,773	3,405	5,534	8,244	Operating profit	106.4	125.3	100.5	60.8	55.2
Others	664	1,177	2,101	3,434	5,216	Net profit	174.5	122.6	105.3	60.6	55.1
Non-current liabilities	22	272	217	218	219	Balance sheet ratios					
Deferred income tax	7	81	30	30	30	Current ratio (x)	1.2	3.7	2.4	1.9	1.6
Others	16	191	188	189	190	Receivable turnover days	76	107	91	91	91
Total liabilities	1,773	3,222	5,723	9,187	13,679	Returns (%)					
Equity to shareholders	367	9,684	9,985	11,405	13,624	ROE	73.5	6.2	12.4	17.4	22.5
Non-controlling interests	131	51	39	19	(12)	ROA	11.9	4.6	7.8	9.6	11.3
Total Equity	498	9,735	10,024	11,424	13,612	Per share					
						EPS (RMB)	0.12	0.25	0.51	0.83	1.28
						DPS (RMB)	0.00	0.00	0.15	0.25	0.38

Source: Company data, CMBIS estimates

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