

Ever Sunshine (1995 HK)

Likely large acquisition deal underway to boost earnings

- M&A-driven placement for earnings boost:** To kick off a good start of next 5-year plan (38% CAGR) and take advantage of good M&A timing, we expect the Company to look for a high-quality underlying asset to acquire. During the conference on 24 Oct 2021, the spokesperson mentioned that they were doing this placement at HK\$15.76 per share because the acquisition target is relatively mature and it needs the funding to secure the deal. According to the Company's 1H21 results, they currently have RMB3bn cash on hand. Combined with the RMB1.1bn raised, they have a total of RMB4.1bn to support this coming M&A deal. So we could expect a large deal soon if everything goes smoothly.
- Details on the placement:** On 24 Oct, the Company announced to complete a placement of 83.52mn new shares, representing 4.67% of the newly enlarged share capital. The allotment share price was HK\$15.76, which represents a discount by 8.8% on closing price (HK\$17.28). The placement raised a total of HK\$1.3bn.
- Is this a good time to do M&A?** With tight property policy and regulation on PM industry, SMEs without strong support from parentco are getting pushed out to merge with industry leaders. Moreover, we see companies which initially intended to go for IPO now delist and merge with larger players. Since the beginning of September, there have been 20 M&A activities in the PM sector (Figure 1) with average P/E at 2021E 13x, well below the secondary industry average of 31x 2021E. This inversion of the secondary market and primary market makes M&A an attractive way for scale expansion.
- Quality over quantity from track record.** The Company has been relatively conservative in M&A, which only contributed 10% of their managed GFA vs. 16% by the industry. They only spent RMB1.6bn in the past three years mainly because they were not chasing the high valuations when the market was hot. We can judge by their strategical exit of Zhangtai deal and patient Red Star Macalline deal at only 13x 2021E PE.
- Valuation likely to be boosted by M&A:** It is currently trading at 34x 2021E PE, lower than its 5-year average of 38x (Figure 3), but higher than the industry average of 31x. Also, if we assume RMB2bn will be allocated to this acquisition and factor in 13x 2021E PE (in line with recent M&A valuation level), then it will imply an earnings boost of RMB150mn in 2021E, or 24% on 2021E NP (based on our pro-forma analysis). This could completely offset the EPS dilution of 5% and thus boost the valuation. **Reiterate Buy on the correction today.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	1,076	1,878	3,120	4,914	7,339
YoY growth (%)	48.3	74.5	66.1	57.5	49.4
Net income (RMB mn)	101	224	390	626	931
EPS (RMB)	0.09	0.15	0.24	0.37	0.56
YoY growth (%)	29.6	64.7	66.2	54.8	48.7
Consensus EPS (RMB)	N.A.	N.A.	N.A.	0.39	0.58
P/E (x)	158.8	96.4	60.1	34.9	22.7
P/B (x)	23.9	35.0	11.3	6.6	5.1
Yield (%)	0.1	0.3	0.4	0.9	1.3
ROE (%)	11.2	19.5	14.6	16.3	19.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$22.16
(Previous TP)	HK\$22.16)
Up/Downside	+38.3%
Current Price	HK\$16.02

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	26,760
Avg 3 mths t/o (HK\$ mn)	81.32
52w High/Low (HK\$)	26.05/12.00
Total Issued Shares (mn)	1,670
Source: Bloomberg	

Shareholding Structure

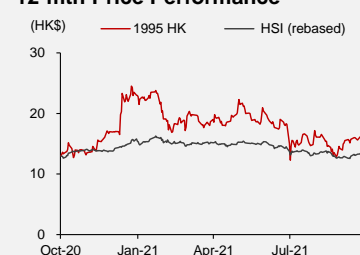
Lin Family	55.36%
CGC	6.09%
Free float	38.55%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	21.7%	19.0%
3-mth	-5.1%	-2.6%
6-mth	-7.3%	-4.0%
12-mth	0.7%	0.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Deloitte

Figure 1: Recent M&A activities in the sector

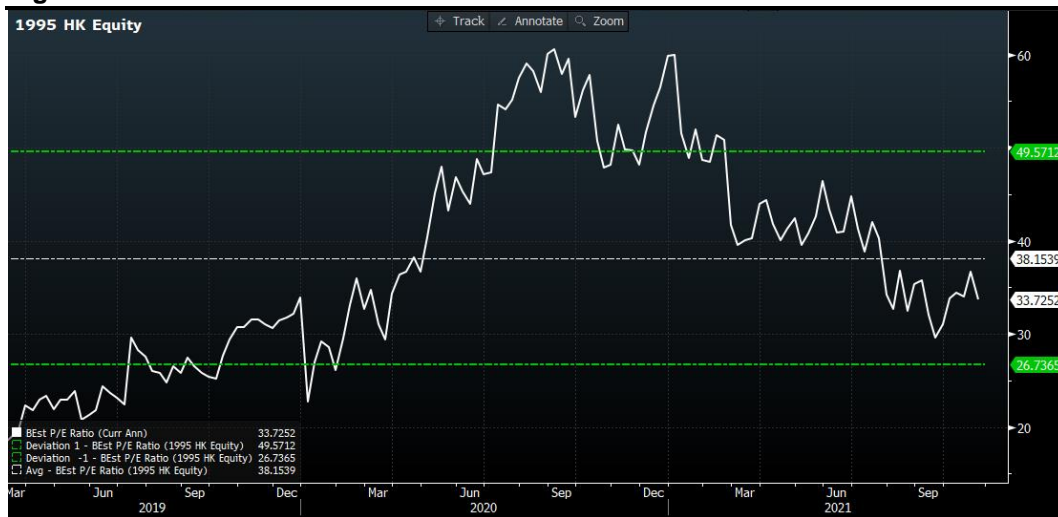
Company	Ticker	Date	Target Company	Stake	Managed GFA mn sq m	Consideration RMB mn	PE	Guarantees (RMB, sq m)
CG Services	6098 HK	20-Sep	R&F PM	100%	69.40	10000	20x	NP: RMB0.5bn in 21
		29-Sep	Link Joy	100%	65.22	3300	11x	Managed GFA: 86mn in 21
Ever Sunshine	1995 HK	15-Oct	Red Star Macalline PM	80%	NA	696	13x	NP: 14.11mn + 58mn × (1+10%) ^N × A/12; *A* = months between Profit Guarantee Period and 21 Dec 2021.
		30-Sep	Meizhong Environment	51%		58	10x	NP: RMB13.38mn/14.6mn/15.72mn in 22/23/24
Kangqiao Service	2205 HK	30-Sep	LiFeng PM	80%	18.04	164	16x	Managed GFA: 72.9k in 22 / 74.2k in 23
Yexing Group	1941 HK	24-Sep	WanHao PM	100%	2.50	47	20x	Managed GFA: 5mn in 21
Onewo	NA	18-Sep	Bon PM	97%	70.00	NA	8x-12x	NA
		28-Sep	ShangGang PM	51%	NA	NA	NA	NA
Greentown Service	2869 HK	21-Oct	Hangzhou Jiancheng	20%	NA	22	33x	NA
Longfor Smart Service	NA	16-Sep	JiuLongCang Mainland	100%	9.00	NA	NA	NA
Jinke Smart Services	9666 HK	10-Sep	TongYong PM	100%	NA	NA	NA	NA
		3-Sep	YiKang PM	100%				
Pearl River City Service	NA	3-Sep	ZhuJian PM	100%	NA	NA	NA	NA
		6-Sep	HuaQiao PM	100%				
		6-Sep	QiaoLinBao PM	100%				
Helenbergh PM	NA	30-Sep	XinHe PM	100%	NA	NA	NA	NA
Yincheng PM	NA	14-Oct	LouYuFang PM	100%	NA	NA	NA	NA
		12-Sep	YouLin PM	51%				
LanLv PM	NA	13-Sep	YingJia PM	51%	NA	NA	NA	NA
Ocean Homeplus	NA	1-Sep	YuanXin PM	49%	NA	NA	NA	NA
Average				82%			13x	

* means PE based on 2021 guarantee, the rest are based on 2020A

Source: CMBIS

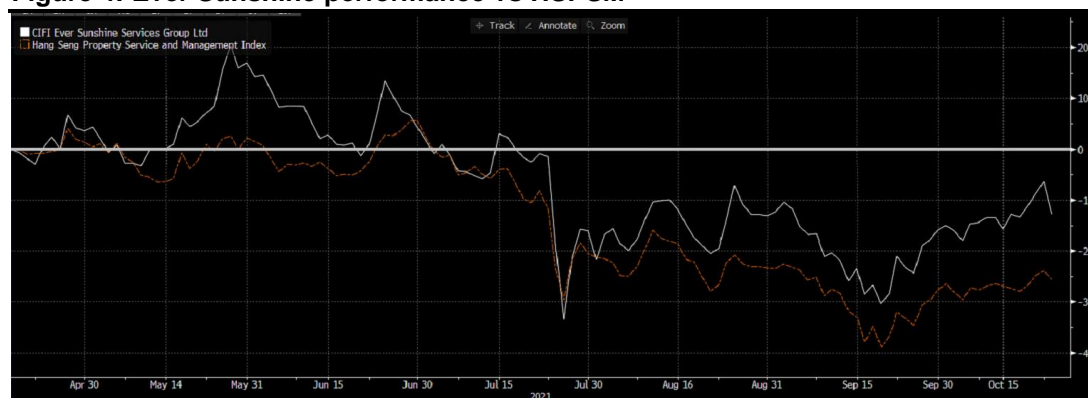
Figure 2: HSPSM vs HSI

Source: Bloomberg

Figure 3: Ever Sunshine Valuation

Source: Bloomberg

Figure 4: Ever Sunshine performance vs HSPSM



Source: Bloomberg, CMBIS

Figure 5: Comps table

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E			Net profit growth (%)	
						20A	21E	22E	21E	22E
Country Garden Services	6098 HK	BUY	91.2	64.9	208,697	64.2	38.7	26.4	65.9	46.7
CR MixC Lifestyle	1209 HK	BUY	56.0	44.6	101,685	84.0	55.5	40.0	51.5	38.7
A-Living	3319 HK	HOLD	34.2	29.4	41,748	18.6	13.5	10.3	37.8	30.7
Greentown Services	2869 HK	HOLD	9.5	8.5	27,417	37.0	23.5	18.0	57.1	30.6
Ever Sunshine	1995 HK	BUY	22.2	15.9	26,493	62.6	33.7	22.7	85.5	48.7
Poly Services	6049 HK	HOLD	53.4	48.2	26,643	35.1	24.7	19.4	41.9	27.5
S-Enjoy	1755 HK	BUY	34.6	16.8	14,662	27.1	17.4	12.1	56.2	43.8
Powerlong Commercial	9909 HK	BUY	33.2	18.5	11,897	33.6	21.2	15.4	58.9	37.9
Excellence CM	6989 HK	BUY	14.9	5.7	6,968	16.4	11.3	8.0	45.6	40.4
Central China New Life	9983 HK	BUY	12.9	5.9	7,480	13.7	9.9	7.3	39.2	36.0
Sino-Ocean Services	6677 HK	BUY	7.1	4.4	5,162	11.5	10.0	7.0	14.5	43.7
New Hope Services	3658 HK	BUY	4.4	2.2	1,775	12.9	7.6	4.9	70.7	53.8
Redsun Services	1971 HK	BUY	9.4	4.5	1,876	20.0	9.8	6.6	105.2	48.4
Evergrande Services	6666 HK	BUY	10.4	4.5	48,649	14.2	9.9	6.5	54.0	52.5
Sunac Services	1516 HK	BUY	29.8	17.4	53,890	57.5	28.0	17.4	105.3	60.6
COPH	2669 HK	NR	NA	7.1	23,468	32.8	25.4	19.5	29.3	30.6
Times Neighborhood	9928 HK	NR	NA	4.0	3,962	14.7	8.0	4.4	84.5	81.3
Aoyuan Healthy Life	3662 HK	NR	NA	4.0	2,912	10.5	6.7	4.7	55.2	42.0
Shimao Services	873 HK	NR	NA	15.9	37,587	38.3	24.2	15.1	58.1	60.2
KWG Living	3913 HK	NR	NA	5.9	11,945	27.7	13.6	8.7	103.0	56.2
Jinke Smart Services	9666 HK	NR	NA	47.1	30,749	33.3	22.7	15.0	46.9	50.9
Average						50.2	31.1	21.6	60.9	43.9

Source: Bloomberg, CMBIS

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	1,076	1,878	3,120	4,914	7,339	Profit before tax	142	329	598	1,031	1,543
Basic PM	667	1,070	1,757	2,818	4,184	D&A	4	16	15	15	15
Non-owner VAS	211	325	572	892	1,309	Change in working capital	67	219	(38)	(464)	(277)
Community VAS	198	483	790	1,204	1,847	Others	(37)	(55)	44	(263)	(393)
Cost of sales	(767)	(1,322)	(2,140)	(3,356)	(5,001)	Net cash from operating	175	509	619	320	887
Gross Profit	309	555	980	1,558	2,338	Capex	(15)	(18)	(20)	(20)	(20)
Other income	16	-	-	-	-	JV/Associates	-	1	2	3	4
Administrative expenses	(187)	9	16	35	20	Others	9	(301)	(2)	(3)	(4)
Other expenses	(5)	-	(4)	(24)	(39)	Net cash from investing	(6)	(318)	(20)	(20)	(20)
Operating profit	133	564	992	1,568	2,319	Equity raised	-	56	1,522	-	-
JV/Associates	9	(0)	-	-	-	Change of debts	9	(9)	-	-	-
Finance cost	(0)	(1)	(1)	(1)	(1)	Others	544	(131)	(234)	113	188
Exceptional	(0)	13	-	-	-	Net cash from financing	553	(83)	1,288	113	188
Pre-tax Profit	142	329	598	1,031	1,543	Net change in cash	722	108	1,887	413	1,055
Income tax	(42)	(80)	(156)	(263)	(393)	Cash at the beginning	438	1,160	1,284	3,171	3,584
PROFIT FOR THE YEAR	100	249	443	768	1,150	Exchange difference	-	16	-	-	-
Non-controlling interest	0	(25)	(52)	(142)	(218)	Cash at the end of the year	1,160	1,284	3,171	3,584	4,639
Attributable Net Profit	101	224	390	626	931						
						Key ratios					
						YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
						Sales mix (%)					
						Basic PM	62.0	57.0	56.3	57.3	57.0
						Non-owner VAS	19.6	17.3	18.3	18.2	17.8
						Community VAS	18.4	25.7	25.3	24.5	25.2
						Total	100.0	100.0	100.0	100.0	100.0
						Profit & loss ratios (%)					
						Gross margin	28.7	29.6	31.4	31.7	31.9
						Net margin	9.3	11.9	12.5	12.7	12.7
						Effective tax rate	29.3	24.2	26.0	25.5	25.5
						Growth (%)					
						Revenue	48.3	74.5	66.1	57.5	49.4
						Gross profit	68.9	79.7	76.4	59.0	50.1
						Operating profit	29.4	138.1	89.3	72.2	49.5
						Net profit	31.5	122.7	74.4	60.4	48.7
						Balance sheet ratios					
						Current ratio (x)	2.4	1.5	2.5	3.1	3.6
						Receivable turnover days	55	66	66	66	66
						Returns (%)					
						ROE	11.2	19.5	14.6	16.3	19.8
						ROA	6.7	9.0	8.4	11.4	13.3
						Per share					
						EPS (RMB)	0.09	0.15	0.24	0.37	0.56
						DPS (RMB)	0.02	0.04	0.07	0.11	0.17
						BVPS (RMB)	0.59	0.40	1.40	1.83	2.50

Source: Company data, CMBIS estimates

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