

Sunac Services (1516 HK)

Acquisition of First Services will generate earnings boost of 12% in 2021E

- What's new:** On 1 Nov, Sunac Services announced its acquisition of 32.22% of First Service from Zhang Peng, Zhang Lei (21.39%), Liu Peiqing (2.18%), and CDH (8.64%) at a total consideration of RMB692mn, equivalent to HK\$2.62 per share which is at 91% premium to last traded price at HK\$1.37. As of 1H21, First Service has a managed GFA of 53mn sq m and contracted GFA of 73mn sq m with a realized profit to shareholders at RMB65mn.
- Compulsory general offer and delisting:** Upon completion of this deal, the Company announced a compulsory acquisition of the 67.78% shares to make First Service a wholly-owned subsidiary of Sunac Services and delist. This will cost another RMB1,456mn.
- Pro-forma analysis:** After making First Service a wholly-owned subsidiary, it will boost the GFA under management and contracted by 53mn/73mn, which is 31%/23% respectively. From 2021E earnings' perspective, the boost would be 13% and 12% for revenue and net profit. Both companies also have similar net profit margin (Sunac Services 14% and First Service 13%).
- Valuation:** Based on First Service's RMB102mn FY2020 net profit (+21% YoY), the RMB692mn consideration for 32.22% of the stakes implies a 14x 2021E PE, which is in line with its current 14x PE; but higher than its YTD average of 8x and 1SD-above-average of 9x (Figure 5). It is also higher than the average 13x PE in recent M&As (Figure 6).

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.	0.42	0.66	0.94
P/E (x)	N.A.	52.3	25.5	15.9	10.2
P/B (x)	N.A.	N.A.	3.1	2.8	2.3
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
(Previous TP)	HK\$29.80)
Up/Downside	+90.1%
Current Price	HK\$15.68

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	48,619
Avg 3 mths t/o (HK\$ mn)	202.66
52w High/Low (HK\$)	29.40/11.46
Total Issued Shares (mn)	3,101

Source: Bloomberg

Shareholding Structure

Sunac Holdings	71.72%
Free float	28.28%

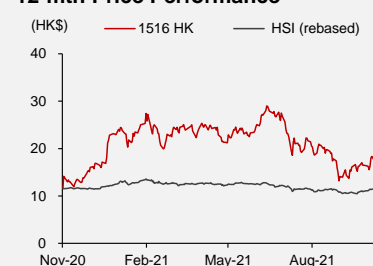
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-2.0%	-5.1%
3-mth	-24.9%	-23.1%
6-mth	-34.8%	-26.2%
12-mth	N.A.	N.A.

Source: Bloomberg

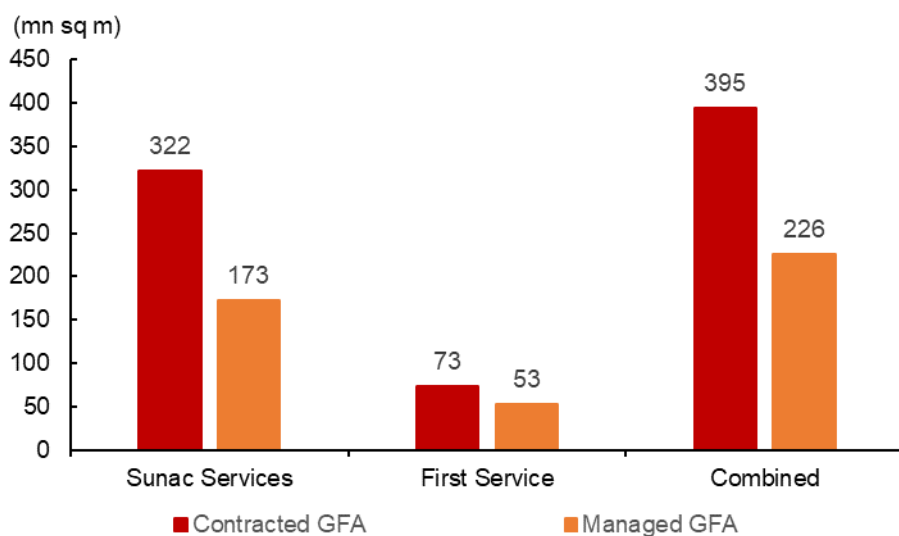
12-mth Price Performance



Source: Bloomberg

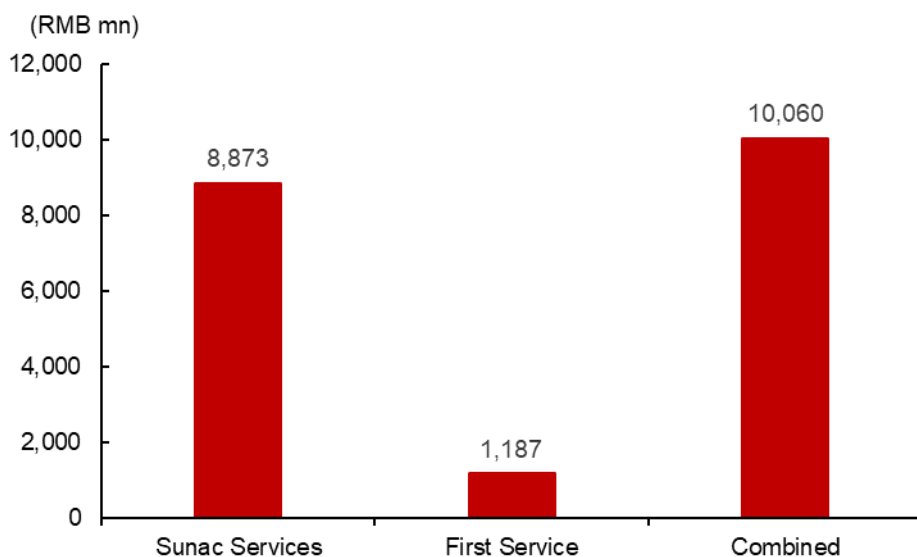
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Figure 1: Pro-forma analysis on Contracted/Managed GFA in 1H21



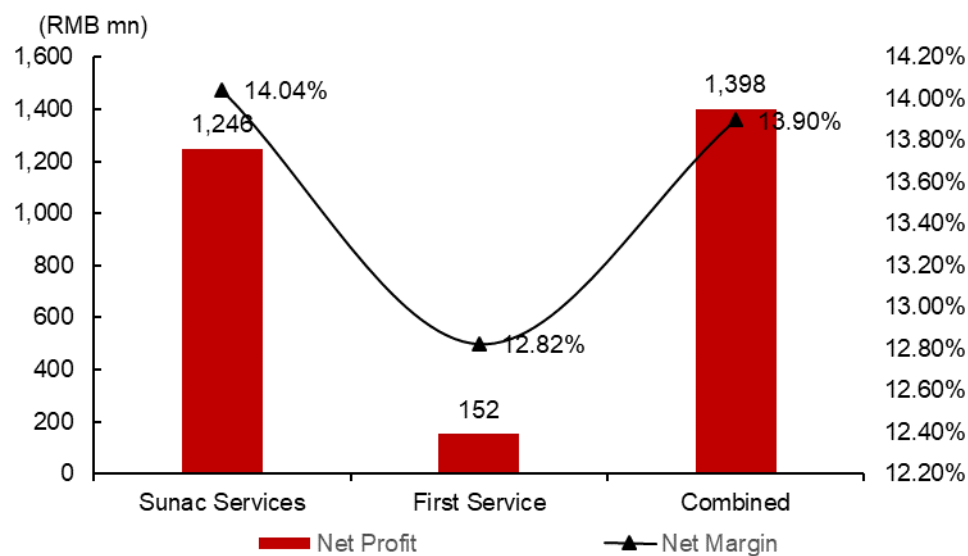
Source: Company data, CMBIS estimates

Figure 2: Pro-forma analysis on Revenue in 2021E



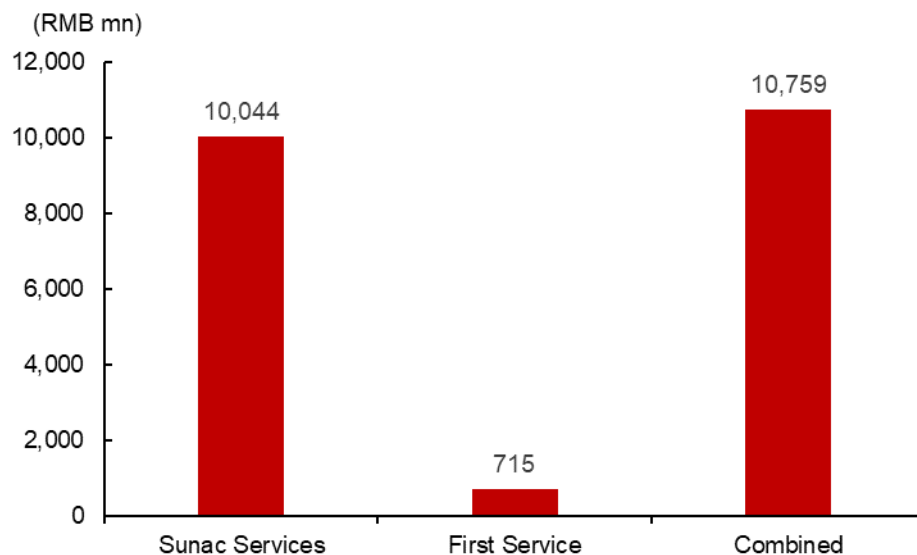
Source: Company data, CMBIS estimates

Figure 3: Pro-forma analysis on NP and NPM in 2021E



Source: Company data, CMBIS estimates

Figure 4: Pro-forma analysis on Net Assets in 1H21



Source: Company data, CMBIS estimates

Figure 5: First Service YTD average PE



Source: Bloomberg

Figure 6: First Service YTD average PE

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 Managed GFA: 86mn in 21
		29-Sep	Link Joy	100%	65.22	3300	11x	NA
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	9686 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

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
			1,618	2,599	4,030	Cash at the beginning of the year	372	1,090	9,368	10,843	12,834
Income tax	(76)	(197)	(372)	(598)	(927)	Exchange difference	(0)	(4)	-	-	-
PROFIT FOR THE YEAR	270	601	1,246	2,001	3,103	Cash at the end of the year	1,090	9,368	10,843	12,834	15,750
						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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