

# Sunac Services (1516 HK)

## A possible win-win situation to acquire parentco's commercial arm

Putting the connected transaction aside, we think the deal could be a win-win situation as 1) On a pro-forma basis it can boost 2022E earnings by 7%. Also the acquired valuation is at 13x 2022E PE which is lower than Sunac Services' current PE of 14x so it is value accretive. 2) The CM business has a high net margin of >50% which can help improve the profitability and ROE of the group, thus the valuation. 3) This deal can also provide some liquidity to its parentco so it can increase the visibility of home deliveries and benefit the GFA growth.

- What's new:** On 8 Nov, Sunac Services announced its acquisition of 100% of asset-light commercial management and operation segment of Sunac China at a total consideration of RMB1.8bn. As of 31 Oct 2021, Sunac CM has a managed GFA of 3.054mn sq m and contracted GFA of 3.729mn sq m (reserve ratio at 18%) with a net profit at RMB78.8mn in 10M21.
- Details of commercial services:** There are total 21 projects under management (28 under contract), which are mainly the commercial areas acquired from Wanda in 2017. The management mode includes traditional PM, VAS, and parking lot management. Management fee is collected at 30% NOI (transfers as 15% revenue) for matured projects and 5% of revenue for incubation projects, net around 10% of revenue.
- Pro-forma and deal analysis:** After making Sunac CM an indirect wholly-owned subsidiary, it will boost the GFA under management and contracted by 3.05mn/3.73mn, which is 1.4%/0.9% respectively (Figure 1). From 2022E earnings' perspective, the boost would be 1.8%/7.1% for revenue and net profit (RMB140mn in 2022 at roughly 54% net margin). As of 1H21, Sunac Services has RMB8.4bn of cash, which is enough to cover this acquisition.
- Valuation:** Based on Sunac CM's guarantee of RMB140mn 2022E net profit, the RMB1.8bn consideration for 100% of the stakes implies a 13x 2022E PE, slightly lower than Sunac Services' 2022E PE at 14x.

### 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	0.67	0.97
P/E (x)	N.A.	N.A.	22.5	14.0	9.0
P/B (x)	N.A.	N.A.	2.8	2.4	2.0
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**  
 (Previous TP **HK\$29.80**)  
 Up/Downside **+115.0%**  
 Current Price **HK\$13.86**

### China Property Service Sector

#### Jeffrey Zeng

(852) 3916 3727

jeffreyzeng@cmbi.com.hk

#### Xiao Xiao

(852) 3761 8952

xiaoxiao@cmbi.com.hk

#### Stock Data

Mkt Cap (HK\$ mn)	42,975
Avg 3 mths t/o (HK\$ mn)	195.94
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%

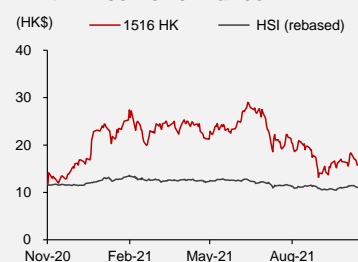
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-13.4%	-14.0%
3-mth	-26.8%	-22.9%
6-mth	-38.6%	-29.4%
12-mth	N.A.	N.A.

Source: Bloomberg

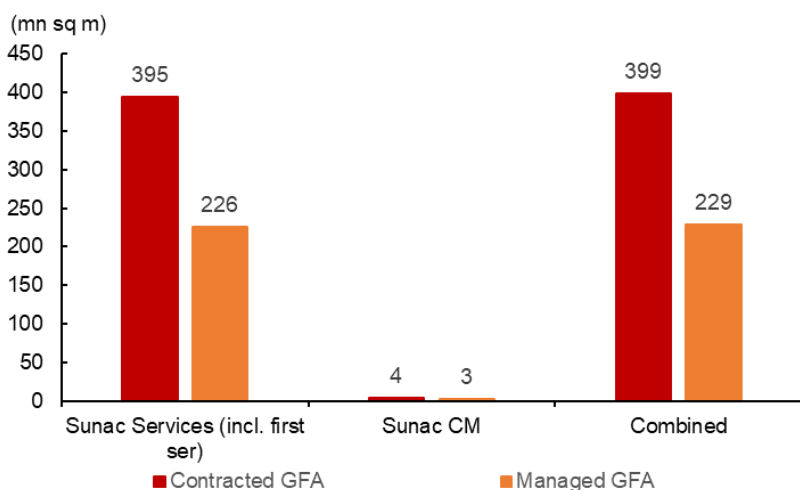
#### 12-mth Price Performance



Source: Bloomberg

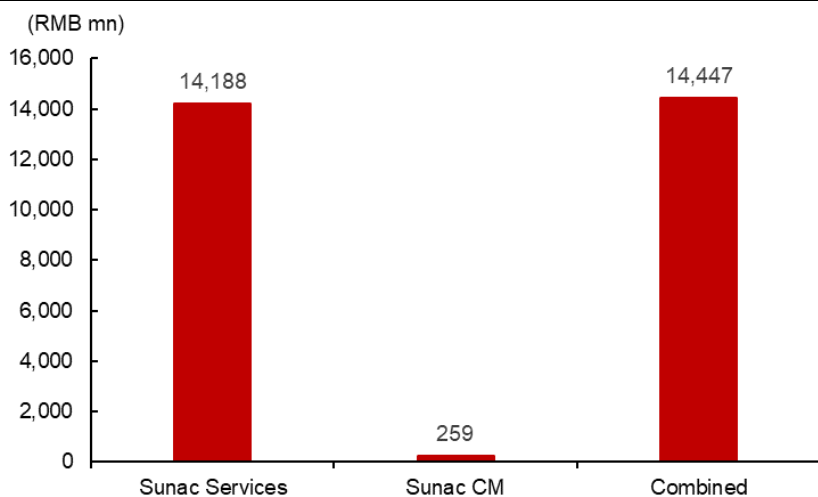
Auditor: PwC

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



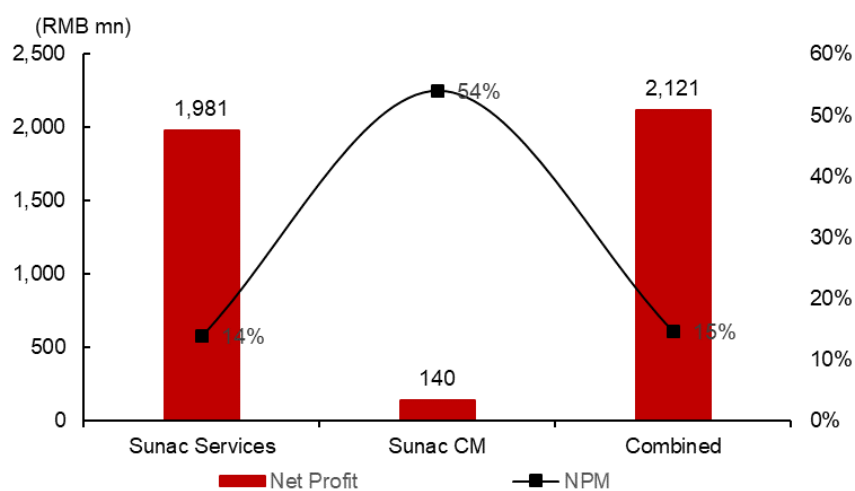
Source: Company data, CMBIS estimates

**Figure 2: Pro-forma analysis on revenue in 2022E**



Source: Company data, CMBIS estimates

**Figure 3: Pro-forma analysis on NP and NPM in 2022E**



Source: Company data, CMBIS estimates

Figure 4: Industry M&amp;As ranked by managed GFA acquired

Company	Consideration	Managed GFA acquired	# of transaction	Avg. PE
CGS	189.6	280.0	7	14.1
KWG Living	18.1	104.0	2	14.7
Onewo	NA	100.2	3	NA
A-Living	18.0	82.0	7	10.7
Evergrande PM	15.4	80.0	2	12.5
First Service	2.3	39.0	2	10.7
Longfor Smart Services	12.7	25.6	4	14.2
<b>Sunac Services</b>	<b>32.2</b>	<b>22.3</b>	<b>3</b>	<b>13.4</b>
Ever Sunshine	7.5	20.0	2	9.0
<b>Average</b>				<b>12.4</b>

Source: Company data, CMBIS

Figure 5: Industry M&amp;As since September

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%) <sup>N</sup> × 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
<b>Average</b>				<b>82%</b>			<b>13x</b>	

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

Source: Company data, CMBIS

Figure 6: 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	55.1	177,159	54.5	32.9	22.4	65.8	46.6
CR MixC Lifestyle	1209 HK	BUY	56.0	38.8	88,561	73.2	48.3	34.8	51.5	38.7
A-Living	3319 HK	HOLD	34.2	22.0	31,240	14.0	10.1	7.7	37.9	30.7
Greentown Services	2869 HK	HOLD	9.5	7.1	23,104	31.2	19.8	15.1	57.1	30.9
Ever Sunshine	1995 HK	BUY	22.2	12.7	22,310	50.2	27.1	18.2	85.1	48.6
Poly Services	6049 HK	HOLD	53.4	41.0	22,659	29.8	21.0	16.5	41.9	27.5
S-Enjoy	1755 HK	BUY	34.6	13.4	11,666	21.7	13.9	9.6	56.4	43.8
Powerlong Commercial	9909 HK	BUY	33.2	16.4	10,560	29.9	18.8	13.6	59.1	37.7
Excellence CM	6989 HK	BUY	14.9	4.9	5,929	14.0	9.6	6.8	45.6	40.4
Central China New Life	9983 HK	BUY	12.9	4.9	6,223	11.4	8.2	6.0	39.2	36.2
Sino-Ocean Services	6677 HK	BUY	7.1	3.9	4,594	10.2	8.9	6.2	14.5	43.7
New Hope Services	3658 HK	BUY	4.4	2.0	1,628	11.9	6.9	4.5	70.7	53.8
Redsun Services	1971 HK	BUY	9.4	4.4	1,805	19.3	9.4	6.3	105.2	48.4
Evergrande Services	6666 HK	BUY	10.4	3.7	40,324	11.8	8.2	5.4	54.0	52.5
Sunac Services	1516 HK	BUY	29.8	14.1	43,596	46.5	22.7	14.1	105.3	60.6
COPH	2669 HK	NR	NA	6.5	21,463	30.0	23.2	17.8	29.3	30.6
Times Neighborhood	9928 HK	NR	NA	3.3	3,272	12.2	6.6	3.6	84.5	81.3
Aoyuan Healthy Life	3662 HK	NR	NA	3.1	2,280	8.2	5.3	3.7	55.2	42.0
Shimao Services	873 HK	NR	NA	12.2	30,144	29.3	18.6	11.7	57.4	58.8
KWG Living	3913 HK	NR	NA	5.0	10,069	23.3	11.4	7.3	104.9	56.2
Jinke Smart Services	9666 HK	NR	NA	34.4	22,458	24.3	16.5	11.0	47.0	50.9
<b>Average</b>						<b>42.7</b>	<b>26.5</b>	<b>18.4</b>	<b>60.9</b>	<b>43.8</b>

Source: Bloomberg, 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
<b>Revenue</b>	<b>2,827</b>	<b>4,623</b>	<b>8,873</b>	<b>14,188</b>	<b>21,021</b>	<b>Profit before tax</b>	<b>346</b>	<b>822</b>	<b>1,618</b>	<b>2,599</b>	<b>4,030</b>
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)
						<b>Net cash from operating</b>	<b>707</b>	<b>1,024</b>	<b>2,881</b>	<b>4,122</b>	<b>5,873</b>
<b>Gross Profit</b>	<b>720</b>	<b>1,275</b>	<b>2,445</b>	<b>3,940</b>	<b>6,032</b>	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)	<b>Net cash from investing</b>	<b>603</b>	<b>(1,371)</b>	<b>(1,016)</b>	<b>(1,516)</b>	<b>(2,016)</b>
Other gains/(losses)			-	-	-	Equity raised	-	7,592	-	-	-
Impairment	(3)	(15)	(18)	(28)	(42)	Change of debts	304	(713)	(615)	-	-
<b>Operating profit</b>	<b>357</b>	<b>803</b>	<b>1,611</b>	<b>2,590</b>	<b>4,019</b>	Others	(896)	1,750	225	(614)	(942)
						<b>Net cash from financing</b>	<b>(592)</b>	<b>8,629</b>	<b>(390)</b>	<b>(614)</b>	<b>(942)</b>
<b>Pre-tax Profit</b>	<b>346</b>	<b>822</b>	(2)	(2)	(2)	Net change in cash	718	8,282	1,475	1,991	2,915
			<b>1,618</b>	<b>2,599</b>	<b>4,030</b>	<b>Cash at the beginning of the year</b>	<b>372</b>	<b>1,090</b>	<b>9,368</b>	<b>10,843</b>	<b>12,834</b>
Income tax	(76)	(197)	(372)	(598)	(927)	Exchange difference	(0)	(4)	-	-	-
<b>PROFIT FOR THE YEAR</b>	<b>270</b>	<b>601</b>	<b>1,246</b>	<b>2,001</b>	<b>3,103</b>	<b>Cash at the end of the year</b>	<b>1,090</b>	<b>9,368</b>	<b>10,843</b>	<b>12,834</b>	<b>15,750</b>
						<b>Key ratios</b>					
						<b>YE 31 Dec</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
<b>Balance sheet</b>						<b>Sales mix (%)</b>					
<b>YE 31 Dec (RMB mn)</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>	Property management	40.6	60.0	66.5	67.2	65.5
<b>Non-current assets</b>	<b>153</b>	<b>1,949</b>	<b>2,497</b>	<b>3,964</b>	<b>5,926</b>	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	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Current assets</b>	<b>2,118</b>	<b>11,008</b>	<b>13,250</b>	<b>16,646</b>	<b>21,365</b>	<b>Profit &amp; loss ratios (%)</b>					
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	<b>Growth (%)</b>					
<b>Total assets</b>	<b>2,271</b>	<b>12,957</b>	<b>15,747</b>	<b>20,611</b>	<b>27,291</b>	Revenue	53.5	63.5	91.9	59.9	48.2
<b>Current liabilities</b>	<b>1,751</b>	<b>2,950</b>	<b>5,506</b>	<b>8,968</b>	<b>13,460</b>	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
<b>Non-current liabilities</b>	<b>22</b>	<b>272</b>	<b>217</b>	<b>218</b>	<b>219</b>	<b>Balance sheet ratios</b>					
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
<b>Total liabilities</b>	<b>1,773</b>	<b>3,222</b>	<b>5,723</b>	<b>9,187</b>	<b>13,679</b>	<b>Returns (%)</b>					
<b>Equity to shareholders</b>	<b>367</b>	<b>9,684</b>	<b>9,985</b>	<b>11,405</b>	<b>13,624</b>	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
<b>Total Equity</b>	<b>498</b>	<b>9,735</b>	<b>10,024</b>	<b>11,424</b>	<b>13,612</b>	<b>Per share</b>					
						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

# Disclosures & Disclaimers

## Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

## Disclaimer

CMBIS or its affiliate(s) have investment banking relationship with the issuers covered in this report in preceding 12 months.

## CMBIS Ratings

**BUY** : Stock with potential return of over 15% over next 12 months  
**HOLD** : Stock with potential return of +15% to -10% over next 12 months  
**SELL** : Stock with potential loss of over 10% over next 12 months  
**NOT RATED** : Stock is not rated by CMBIS

**OUTPERFORM** : Industry expected to outperform the relevant broad market benchmark over next 12 months  
**MARKET-PERFORM** : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months  
**UNDERPERFORM** : Industry expected to underperform the relevant broad market benchmark over next 12 months

## CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

**CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)**

## Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

### For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

### For recipients of this document in the United States

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

### For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.