

Sino-Ocean Service (6677 HK)

More visibility needed for its ambitious 2025 plan

After a strong growth in 2021, the management has rolled out a new plan of 2025 to reach RMB10bn+ revenue (or 40% CAGR). However, we are slightly concerned on the visibility of two key drivers as 1) Commercial operation of shopping malls will rely more on third party given its lack of reserved projects to reach 30 malls but this model is unproven. 2) Community VAS may face growth slowdown as more third-party and non-residential projects will be in the portfolio. We think 2022E guidance of 40-50% growth is reachable after the merge of projects from red star macalline. Maintain Buy on attractive valuation of 6x.

■ **2021 results – in line:** The Company delivered 70% growth in FY2021 earnings at RMB439mn, slightly beating its profit alert's 65% by 5%, reflecting a higher growth than previously announced PM peers do. Their total revenue grew 47% YoY to RMB3bn in FY2021 mainly driven by the community VAS segment which contributed a 149% YoY growth and developers VAS segment (+60% YoY). GP Margin widened 2.5ppt YoY to 27.8% in 2021. As a result, NPM expanded to 14.8% in 2021 (+2.1ppt YoY) and NP came at RMB439mn, in line with our 2021E estimates. FY2021 EPS was RMB0.37/share (+28% YoY). The Company declared a dividend of RMB0.09/share, representing 25% payout ratio, which decreased 15ppts from the 40% in 2020.

■ **Community VAS business** grew 149% YoY in 2021, the increase mainly arises from community living services (+567% YoY) and property brokerage services (+533% YoY) accounting for 59% of segment revenue. Between these two services provided, revenue from retail commodity sales grew 2630% YoY and the 40 leasing offices generated a sales revenue growth of 565% YoY. However, retail sales has a lower GPM than traditional value-added services and due to its strong growth in contribution, this has lowered the segment GPM from 62% to 40% in 2021 (-12ppts YoY). Despite the decrease, community VAS (40%) is still way higher than PM (24%) and developer VAS (22%), which contributed strongly to lift up the overall GPM by 2.5ppts.

■ **New addition of commercial operations segment,** the Company has started to undertake commercial operational services for shopping malls and office building since Aug 2021 (fulfilling guidance in 1H21). Although not by a lot, only adding 1.4/2.1mn sq m in managed / contracted GFA (2% of total). However, the GPM of commercial operational services for shopping malls and office buildings were 75% and 73% respectively, much higher than residential PM's 20%. This addition of operational services has boosted the commercial operational and PM GPM to 34% (+12ppts YoY) and the overall PM segment to 24% (+6ppts YoY) in 2021.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	1,610	1,830	2,023	2,966	3,484
YoY growth (%)	32.8	13.6	10.6	46.6	17.5
Net income (RMB mn)	137	207	258	439	565
EPS (RMB)	N.A.	N.A.	0.29	0.37	0.48
YoY growth (%)	N.A.	N.A.	N.A.	27.6	28.9
Consensus EPS (RMB)	N.A.	N.A.	0.25	0.35	0.47
P/E (x)	N.A.	N.A.	10.5	8.3	6.4
P/B (x)	N.A.	N.A.	1.4	1.6	1.1
Yield (%)	N.A.	N.A.	2.0	2.9	6.2
ROE (%)	27.4	49.4	12.7	18.3	17.1
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price HK\$7.13
 (Previous TP) HK\$7.13
Up/Downside +93.8%
Current Price HK\$3.68

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	4,357
Avg 3 mths t/o (HK\$ mn)	2.46
52w High/Low (HK\$)	6.88/ 3.03
Total Issued Shares (mn)	1,184

Source: Bloomberg

Shareholding Structure

Sino-Ocean Group	67.6%
Free float	32.4%

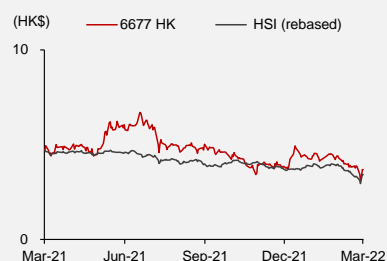
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-16.3%	-3.5%
3-mth	-4.4%	3.1%
6-mth	-26.6%	-15.0%
12-mth	-15.2%	14.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: 2021 results summary

RMB mn	2020	2021	YoY	Diff. vs. Estimate
Revenue	2,023	2,966	47%	5%
- Property management services	979	1,126	15%	
- Developer VAS	368	588	60%	
- Community VAS	316	789	149%	
- Commercial operations	360	462	28%	
Gross profit	511	825	61%	9%
Net profit	258	439	70%	7%
EPS (RMB)	0.29	0.37	28%	6%
DPS (RMB)	0.06	0.09	69%	-33%
Dividend payout ratio	40%	25%	-14.9 ppt	-14.9 ppt
GP Margin	25.3%	27.8%	2.5 ppt	0.9 ppt
Net Margin	12.7%	14.8%	2.1 ppt	0.2 ppt
Managed GFA (mn sq m)	45.5	73.5	62%	-7%
Contracted GFA (mn sq m)	71.1	105.9	49%	2%

Source: Company data, CMBIGM

Figure 2: PM sector comps

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	36.9	124,040	36.5	21.9	15.1	72.9	49.6
CR MixC Lifestyle	1209 HK	BUY	56.0	37.5	85,594	70.7	45.2	32.7	107.0	37.7
A-Living	3319 HK	HOLD	34.2	13.6	19,284	8.6	6.4	5.1	47.8	25.8
Greentown Services	2869 HK	HOLD	9.5	7.0	22,688	30.6	19.9	15.3	41.3	24.7
Ever Sunshine	1995 HK	BUY	22.2	11.1	19,383	43.6	24.0	16.4	74.9	47.8
Poly Services	6049 HK	HOLD	53.4	54.0	29,852	29.5	22.2	17.4	76.0	27.1
S-Enjoy	1755 HK	BUY	34.6	10.5	9,172	17.0	10.8	7.6	63.4	42.5
Powerlong Commercial	9909 HK	BUY	33.2	7.8	5,002	14.1	9.0	6.6	60.8	38.4
Excellence CM	6989 HK	BUY	14.9	4.0	4,906	11.6	7.3	5.3	81.3	35.5
Central China New Life	9983 HK	BUY	12.9	4.2	5,331	8.4	5.0	3.8	113.6	33.1
Sino-Ocean Services	6677 HK	BUY	7.1	3.7	4,357	9.7	8.5	6.1	76.4	37.2
New Hope Services	3658 HK	BUY	4.4	2.2	1,775	12.9	7.6	4.9	91.1	51.3
Redsun Services	1971 HK	BUY	9.4	3.1	1,278	13.7	6.7	4.5	139.1	50.2
Evergrande Services	6666 HK	BUY	10.4	2.3	24,865	7.3	5.1	3.3	42.7	21.4
Sunac Services	1516 HK	BUY	29.8	5.3	16,346	17.6	8.6	5.3	128.9	47.8
COPH	2669 HK	NR	NA	7.6	24,882	34.8	26.8	20.7	31.3	30.2
Times Neighborhood	9928 HK	NR	NA	2.3	2,228	8.3	4.5	2.4	89.3	39.9
Aoyuan Healthy Life	3662 HK	NR	NA	2.0	1,431	5.1	3.1	2.2	53.3	41.3
Shimao Services	873 HK	NR	NA	5.1	12,637	12.3	8.1	5.7	92.9	40.7
KWG Living	3913 HK	NR	NA	3.0	6,051	14.0	6.8	4.5	137.7	51.7
Jinke Smart Services	9666 HK	NR	NA	27.6	17,986	19.5	13.3	8.9	95.5	47.3
Average						35.4	22.5	16.2	78.1	39.3

Source: Bloomberg, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21A	FY22E
Revenue	1,610	1,830	2,023	2,966	3,484
Property management	1,052	1,220	979	1,126	2,082
Developer VAS	317	373	368	588	522
Community VAS	241	237	316	789	733
Commercial operations	-	-	360	462	147
Cost of sales	(1,287)	(1,453)	(1,512)	(2,141)	(2,495)
Gross Profit	323	377	511	825	989
Other income	111	225	173	36	3
Selling expenses	(10)	(9)	(16)	(23)	(14)
Administrative expenses	(132)	(144)	(183)	(286)	(247)
Exceptional	(22)	(10)	(41)	(27)	(31)
Operating profit	269	439	445	525	699
Finance cost	(84)	(173)	(131)	(1)	(1)
Share of JV	-	0	16	31	-
Pre-tax Profit	185	266	330	555	721
Income tax	(41)	(61)	(68)	(113)	(162)
PROFIT FOR THE YEAR	144	205	263	441	559
Non-controlling interest	(7)	1	(5)	(2)	6
Net Profit attribute to shareholders	137	207	258	439	565

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21A	FY22E
Non-current assets	3,361	3,123	364	382	376
Property, plant and	25	25	20	23	32
Others	3,336	3,097	344	359	343
Current assets	978	1,034	2,728	3,447	4,902
Inventories	129	135	123	176	232
Trade and other receivables	435	458	315	524	792
Cash and cash equivalents	415	423	2,175	2,527	3,839
Others	0	18	115	220	39
Total Assets	4,339	4,157	3,092	3,828	5,278
Current liabilities	1,341	1,552	1,016	1,339	1,997
Trade and other payables	644	800	651	902	1,374
Others	698	752	364	436	623
Non-current liabilities	2,468	2,164	25	56	26
Deferred income tax liabilities	16	14	13	18	13
Others	2,452	2,150	13	38	13
Total liabilities	3,809	3,717	1,041	1,394	2,023
Equity to shareholders	501	418	2,028	2,402	3,237
Non-controlling interests	29	22	23	32	18
Total Equity	530	440	2,051	2,434	3,255

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19E	FY20A	FY21A	FY22E
Profit before tax	185	266	330	514	721
D&A	27	27	20	NA	16
Chg in working capital	(134)	(4)	15	NA	223
Others	(40)	(83)	(51)	NA	(185)
Net cash from operating	38	207	314	NA	776
Capex	(17)	-	-	NA	-
JV/Associates	-	1	2	NA	4
Others	(3,074)	418	436	NA	(20)
Net cash from investing	(23)	(25)	(27)	NA	(27)
Equity raised	-	-	1,635	NA	-
Chg of debts	2,802	(267)	266	NA	-
Others	(36)	(350)	(292)	NA	(161)
Net cash from financing	2,766	(617)	1,608	NA	(161)
Net change in cash	(286)	9	2,361	352	599
Cash at the beginning of the year	701	415	423	2175	3,240
Exchange difference	-	-	-	-	-
Cash at the end of the year	415	423	2,175	2527	3,839

Key ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21A	FY22E
Sales mix (%)					
Property management	65.3	66.7	48.4	38.0	59.8
Developer VAS	19.7	20.4	18.2	19.8	15.0
Community VAS	15.0	13.0	15.6	26.6	21.1
Commercial operations	0.0	0.0	17.8	15.6	4.2
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	20.1	20.6	25.3	27.8	28.4
Net margin	8.5	11.3	12.7	14.8	16.2
Effective tax rate	22.4	22.9	20.5	20.4	22.5
Growth (%)					
Revenue	32.8	13.6	10.6	46.6	29.7
Gross profit	28.5	16.6	35.7	61.3	34.4
EBIT	89.1	63.0	1.4	17.7	41.2
Net profit	31.7	50.6	24.8	70.4	40.4
Balance sheet ratios					
Current ratio (x)	0.7	0.7	1.7	2.6	2.5
Receivable turnover days	78	73	57	64	73
Returns (%)					
ROE	27.4	49.4	12.7	18.3	17.4
ROA	3.2	5.0	8.3	11.5	10.7
Per share					
EPS (RMB)	N.A.	N.A.	0.29	0.37	0.48
DPS (RMB)	N.A.	N.A.	0.06	0.09	0.19
BVPS (RMB)	N.A.	N.A.	2.16	1.92	2.67

Source: Company data, CMBIGM estimates

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