

Ever Sunshine (1995 HK)

Downgrade to Hold on margin and community VAS outlook

We downgrade Ever Sunshine from Buy to **HOLD** rating after a below-expectation 2021 results. Our concerns mainly lied in the outlook of Community VAS that saw relatively big decline in penetration rate and overall margin downward trend on costs. This may lead to a slight de-rating from its previous valuation premium (strong parent, third-party expansion and Community VAS).

- 2021 core earnings growth below expectation:** If we exclude the exchange gains, the core net profits growth in 2021 was only at 33% YoY in 2021, a miss of its guidance of 50-60%. **The growth slowdown was mainly due to two reasons:** 1) Community VAS segment faced revenue growth pressure that only rose 39% YoY, falling behind Basic PM and Non-owner VAS. This has led to its revenue contribution decline to 23.8% vs. 25.3% in 2020. 2) Overall GP margin declined to 28% (-3.8ppt YoY) in 2021.
- Uncertainties lie in Community VAS outlook:** If we look closer at the growth slowdown, it is mainly caused by the declining penetration that was measured by VAS/managed GFA at RMB6.4/sqm vs. RMB7.8/sqm. Management explained the on-and-off Covid was the main reason of disruption and they will boost again, when the pandemic is under control. We think the uncertainty remains as 1) it may take a relatively long time to set up and develop new business lines in order to meet more demands. 2) New BUs may have lower margins at the early stage, just like its community maintenance and home decoration business with more expenditure and lower margin. Therefore, Community VAS may face pressure at GP level.
- Margin to face further downward trend:** After the margin declined to 28% in 2021 results, the company further guided down the overall gross margin to 26-28%. Especially, Basic PM and Community VAS may see slightly more downside to <22% and 40-50% vs. 23% and 44.9% in 2021. This would put pressure on the net profit margin although the company is trying to lower other costs.
- Basic PM remains the key earnings pillar on its exceptional third-party expansion:** The newly increased GFA under contract was 89mn sqm, out of which 90% came from third-party expansion. This proved again its strong independency that can help clear industry concerns of parentco sales pressure. With reserved GFA ratio still high at 60%, we expect this segment to continue have high growth at 43% 2021-24E CAGR. Also, the company has RMB4bn cash on hand after the placement in Oct 2021 for potential M&A boost.
- Downgrade to Hold:** We revised down 2022/23E revenue forecast by 1/13% to reflect a slowdown in Community VAS. 2022/23E gross margin was also cut by 6.3/0.6ppt to reflect the rising costs and new business lines that have lower margins. So the net profits were lowered by 10% and 14% in 2022/23E. As a result, we derived our new target price at HK\$12.72/share by using the 22x 2022E PE (vs. previous 35x), in line with industry average (among mid cap names).

Earnings Summary

(YE 31 Dec)	FY20E	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	3,120	4,703	7,243	10,006	12,827
YoY growth (%)	66.1	50.8	52.5	39.6	30.6
Net income (RMB mn)	390	617	834	1,122	1,412
EPS (RMB)	0.23	0.37	0.48	0.64	0.81
YoY growth (%)	60.3	58.1	28.8	34.5	25.8
Consensus EPS (RMB)	N.A.	N.A.	0.54	0.75	0.92
P/E (x)	41.7	26.4	20.5	15.2	12.1
P/B (x)	6.7	6.0	4.9	3.7	2.7
Yield (%)	0.7	1.1	1.5	2.0	2.5
ROE (%)	13.5	13.9	16.4	17.9	17.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Down)

Target Price **HK\$12.72**
 (Previous TP **HK\$22.16**)
 Up/Downside **+14.39%**
 Current Price **HK\$11.12**

China Property Service Sector

Jeffrey Zeng

(852) 3916 3727

jeffreyzeng@cmbi.com.hk

Xiao Xiao

(852) 3761 8952

xiaoxiao@cmbi.com.hk

Zhang Miao

zhangmiao@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	19,488
Avg 3 mths t/o (HK\$ mn)	104.07
52w High/Low (HK\$)	22.55/6.59
Total Issued Shares (mn)	1,753

Source: Bloomberg

Shareholding Structure

Lin Family	55.36%
CGC	6.09%
Free float	38.55%

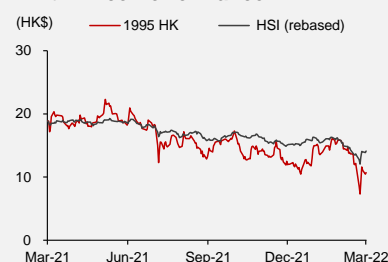
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-28.7%	-23.4%
3-mth	-7.5%	-2.4%
6-mth	-16.3%	-7.4%
12-mth	-41.4%	-22.7%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

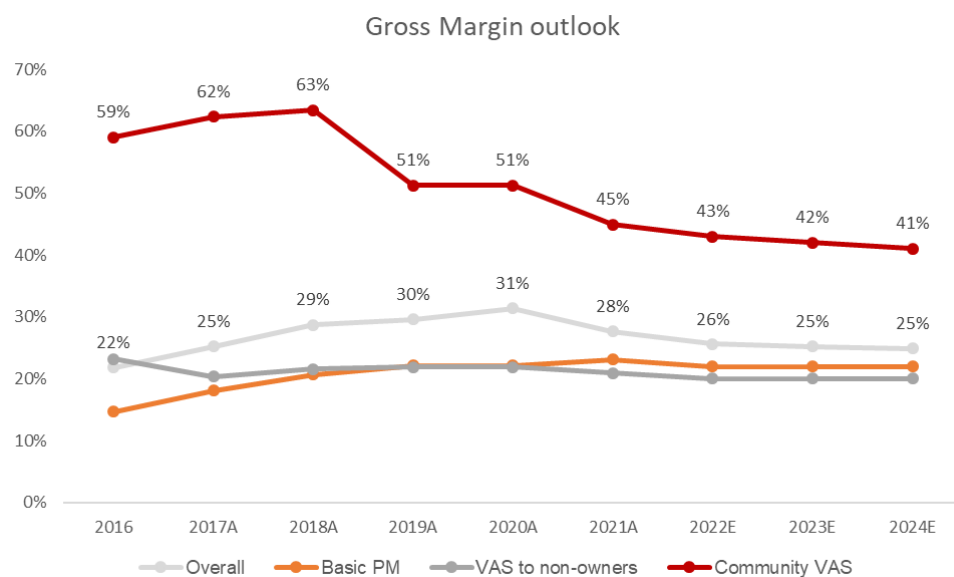
Auditor: Deloitte

Figure 1: 2021 results summary

RMB mn	2020	2021	YoY	Diff. vs. Estimate
Revenue	3,120	4,703	51%	-4%
- Basic PM	1,757	2,654	51%	
- Community VAS	790	1,099	39%	
- Non-owner VAS	572	867	52%	
- City Services	-	81	NA	
Gross profit	980	1,300	33%	
Net profit	390	617	58%	-1%
Core Net Profit (excl. FX gains)	452	602	33%	
EPS (RMB)	0.24	0.37	51%	
DPS (RMB)	0.07	0.11	55%	
Dividend payout ratio	28.7%	29.4%	0.8 ppt	
GP Margin	31.4%	27.6%	-3.8 ppt	-4.1 ppt
Net Margin	12.5%	13.1%	0.6 ppt	0.4 ppt
Managed GFA (mn sq m)	101.6	171.0	68%	
Contracted GFA (mn sq m)	181.2	270.8	49%	

Source: Company data, CMBIGM

Figure 2: Gross margin on a downtrend trend



Source: Company data, CMBIGM

- **Earnings recap:** The Company delivered 58% YoY growth in 2021 earnings. However, if we exclude the exchange chain, the core NP growth was only at 43%, below market expectation. The total revenue grew 51% YoY to RMB4.7bn in 2021 partly contributed by the 52% YoY increase in non-owner VAS and 51% YoY increase in basic PM. GP Margin eroded 3.8ppt YoY to 27.6% in 2021 due to decline in all three existing segments Community VAS (-4.7ppt YoY; Basic PM (-2.3ppt YoY); non-owner VAS (-3.7 YoY) and the introduction of lower margin city services. This decrease was offset by the decrease in operating leverage (SG&A/Revenue ratio at 10% in 1H21; -1ppt YoY) and an increase in other income. NPM was up 0.6ppt to 13.1% in 2021. EPS was RMB0.37/share (+51% YoY) and the Company declared a dividend of HK\$0.1299/share (+55% YoY), representing 29% payout ratio.
- **Basic PM business** grew 51% YoY in 2021, mainly driven by 3-rd party expansions with managed GFA reaching 139mn sq m (+74% YoY) and accounting for 81% (+2.7ppts YoY) of total GFA managed. It has established a strategic cooperation / JVs with 30+ developers. Meanwhile, the contribution from parent group also increased 48% YoY to 32mn sq m. In 2021, the Company also acquired Macalline property and Zhengzhou Jinyi, which brought in 17.98mn sq m. The segment GPM decreased 2.3ppts to 23.1% in 2021 due to a -2ppt impact from the termination of pandemic subsidy. The Company guidance for segment GPM is around 22%.
- **Community VAS** rose 39% YoY in 2021 on property agency services (+68% YoY) and common area VAS (+111% YoY). It is worth to note that the contribution from property agency service was up 5ppt YoY to 29% after forming a separate business unit. The segment GPM declined to 44.9% (-4.7ppts) due to development of community maintenance and home decoration business with more expenditure and lower margin. The Company guidance for segment GPM is between 40-50%.
- **Non-owner VAS rose 52% YoY in 2021**, mainly driven by additional tailored services (+200% YoY) and housing repair services (+101% YoY). Similar to other segments, it has also suffered margin decline of 3.7ppts to 20.9% in 2021, because additional tailored services and housing repairs have lower margin. The Company guidance for future segment GPM is around 20%.

Figure 3: Earnings Change

(RMB mn)	New		Old		Diff (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	7,243	10,006	7,339	11,500	-1.3%	-13.0%
Gross Profit	1,853	2,520	2,338	2,967	-20.7%	-15.1%
Net profit	834	1,122	931	1,300	-10.4%	-13.7%
EPS (RMB)	0.5	0.6	0.6	0.6	-14.3%	0.0%
Gross Margin	25.6%	25.2%	31.9%	25.8%	-6.30 ppts	-0.60 ppts
Net Margin	11.5%	11.2%	12.7%	11.3%	-1.20 ppts	-0.10 ppts

Source: CMBIGM estimates

Figure 4: Ever Sunshine 1YR Forward PE



Source: Bloomberg, CMBIGM

Figure 5: PM sector comps

Company	Ticker	CMBI rating	TP (HK\$)	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E			Net profit growth (%)	
						21A	22E	23E	22E	23E
Country Garden Services	6098 HK	BUY	91.2	36.1	121,515	21.5	14.8	10.6	49.6	38.5
CR MixC Lifestyle	1209 HK	BUY	56.0	37.0	84,453	44.4	31.8	23.6	37.7	34.4
A-Living	3319 HK	HOLD	34.2	13.1	18,545	6.2	4.9	4.0	25.6	25.0
Greentown Services	2869 HK	HOLD	9.5	7.2	23,467	20.6	15.8	12.2	30.3	24.1
Ever Sunshine	1995 HK	HOLD	12.7	11.1	19,488	24.2	16.9	12.1	45.8	38.9
Poly Services	6049 HK	HOLD	53.4	57.0	31,540	29.4	23.6	18.6	23.5	27.0
S-Enjoy	1755 HK	BUY	34.6	11.1	9,659	11.4	8.0	5.9	42.7	36.4
Powerlong Commercial	9909 HK	BUY	33.2	7.5	4,841	8.7	6.3	4.7	38.4	33.3
Excellence CM	6989 HK	BUY	14.9	4.0	4,930	7.3	5.4	4.0	35.5	30.0
Central China New Life	9983 HK	BUY	12.9	4.3	5,458	7.0	5.2	4.0	32.8	32.2
Sino-Ocean Services	6677 HK	BUY	7.1	3.9	4,641	9.1	6.5	4.7	37.9	36.5
New Hope Services	3658 HK	BUY	4.4	2.3	1,897	8.1	4.7	NA	55.5	NA
Redsun Services	1971 HK	BUY	9.4	3.0	1,249	6.5	4.4	3.0	50.2	44.1
Evergrande Services	6666 HK	BUY	10.4	2.3	24,865	5.8	4.8	4.0	21.4	20.1
Sunac Services	1516 HK	BUY	29.8	5.2	16,069	10.0	6.8	4.9	45.0	37.9
COPH	2669 HK	NR	NA	8.1	26,525	28.6	22.1	17.0	30.2	29.0
Times Neighborhood	9928 HK	NR	NA	2.5	2,464	5.0	2.7	2.3	39.9	30.1
Aoyuan Healthy Life	3662 HK	NR	NA	2.0	1,467	3.2	2.2	1.7	41.3	31.2
Shimao Services	873 HK	NR	NA	4.8	11,773	7.5	5.3	3.8	40.7	38.2
KWG Living	3913 HK	NR	NA	3.0	6,132	6.9	4.6	3.4	51.7	32.7
Jinke Smart Services	9666 HK	NR	NA	28.2	18,410	13.6	9.1	6.4	47.3	41.1
Average						23.0	16.7	12.4	39.2	33.4

Source: Bloomberg, CMBIGM

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	3,120	4,703	7,243	10,006	12,827	Profit before tax	598	891	1,202	1,596	2,008
Basic PM	1,757	2,654	4,383	6,109	7,795	D&A	32	-	15	15	15
Non-owner VAS	572	867	1,179	1,564	1,975	Change in working capital	84	-	-	-	-
Community VAS	790	1,099	1,518	2,055	2,641	Others	(5)	-	(264)	(335)	(422)
City Services	-	82	163	277	416	Net cash from operating	709	-	952	1,276	1,601
Cost of sales	(2,140)	(3,403)	(5,390)	(7,486)	(9,635)	Capex	(21)	-	(20)	(20)	(20)
Gross Profit	980	1,300	1,853	2,520	3,193	JV/Associates	-	-	-	-	-
Other income	64	122	55	50	50	Others	8	-	-	-	-
Administrative expenses	(333)	(465)	(703)	(971)	(1,231)	Net cash from investing	(13)	-	(20)	(20)	(20)
Other expenses	(37)	(62)	(0)	(0)	(0)	Equity raised	1,441	-	-	-	-
Operating profit	674	895	1,205	1,599	2,011	Change of debts	(13)	-	-	-	-
JV/Associates	-	-	-	-	-	Others	(156)	-	117	-	-
Finance cost	(1)	(3)	(3)	(3)	(3)	Net cash from financing	1,272	-	117	-	-
Exceptional	(75)	-	-	-	-	Net change in cash	1,969	814	1,118	1,506	1,918
Pre-tax Profit	598	891	1,202	1,596	2,008	Cash at the beginning	1,284	3,171	3,985	5,103	6,609
Income tax	(156)	(199)	(264)	(335)	(422)	Exchange difference	(82)	-	-	-	-
PROFIT FOR THE YEAR	443	693	937	1,261	1,586	Cash at the end of the year	3,171	3,985	5,103	6,609	8,526
Non-controlling interest	(52)	(76)	(103)	(139)	(174)						
Net Profit to shareholders	390	617	834	1,122	1,412						
						Key ratios					
						YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
						Sales mix (%)					
						Basic PM	56.3	56.4	60.5	61.1	60.8
						Non-owner VAS	18.3	18.4	16.3	15.6	15.4
						Community VAS	25.3	23.4	21.0	20.5	20.6
						City Services	0.0	1.7	2.3	2.8	3.2
						Total	100.0	100.0	100.0	100.0	100.0
						Profit & loss ratios (%)					
						Gross margin	31.4	27.6	25.6	25.2	24.9
						Net margin	12.5	13.1	11.5	11.2	11.0
						Effective tax rate	26.0	22.3	22.0	21.0	21.0
						Growth (%)					
						Revenue	66.1	50.8	54.0	38.1	28.2
						Gross profit	76.4	32.7	42.5	36.0	26.7
						Operating profit	112.8	32.7	34.7	32.7	25.8
						Net profit	74.4	58.1	35.2	34.5	25.8
						Balance sheet ratios					
						Current ratio (x)	2.5	2.2	2.1	2.2	2.4
						Receivable turnover days	54	61	61	61	61
						Returns (%)					
						ROE	13.5	13.9	16.4	17.9	17.8
						ROA	8.4	8.5	9.4	10.1	10.4
						Per share					
						EPS (RMB)	0.23	0.37	0.48	0.64	0.81
						DPS (RMB)	0.07	0.11	0.14	0.19	0.24
						BVPS (RMB)	1.45	1.62	1.97	2.65	3.63

Source: Company data, CMBIGM estimates

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CMB International Global Markets Limited

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

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