

S-Enjoy Service (1755 HK)

Heavy bond investment loss led to governance concern

We think S-enjoy may face further de-rating on 1) corporate governance issue to invest in high-risk USD bonds that caused ~RMB150mn loss in 2H21. It's worth noting that it has invested additional RMB156mn into USD bonds in 1H21 after RMB1bn placement and may face more haircuts. 2) 2021 results was a miss on the investment loss and the Company cut the dividend payout to 25% (50% in 2020). 3) Margin downward pressure. As a result, we downgrade to **SELL** rating and the catalyst is more USD bond price falling.

- 2021 results – big miss and dividend cut:** The Company delivered 16% YoY growth in 2021 earnings at RMB525mn, below our 2021E estimate by 23%. The huge miss was mainly due to RMB250mn loss on financial and other assets (detailed analysis below). The total revenue grew 52% YoY to RMB4.35bn in 2021 mainly driven by PM (+67% YoY) and Community VAS segments (+84% YoY). GP Margin widened slightly of 0.1ppt YoY to 30.8% in 2021. However, NPM was lowered to 12.1% in 2021 (-3.7ppt YoY). EPS was RMB0.62/share (+13% YoY) and the Company took a big cut in dividend at HK\$0.155/share (-45% YoY), representing 25% payout ratio (-26ppts YoY).
- Corporate Governance concern after loss in USD bond investment:** S-enjoy held RMB342mn-worth USD bonds of listed companies as of 1H21. We estimate it has recorded >RMB150mn loss in 2H21 based on balance sheet figure as of Dec 2021. This may cause investors' concerns on 1) financially, it may face more bond value loss given the worsening market. 2) The corporate governance issue of using cash to buy risky assets. Especially, it has invested additional RMB156mn cash into the USD bonds in 1H21 (RMB1bn placement in Mar 2021). We forecast another RMB100mn loss by 1H22E.
- Margin to face more downside risks:** On basic PM business side, it has shown steady progress in third-party expansion, contributing 27% of contracted GFA increase. However, the current PM margin seems too high at 30%, and may face downward risk given higher costs and more third-party projects. For Community VAS, the current pandemic may impact several business lines. Also, its margin may decline after the merge of catering business of Shanxi Xuefu at RMB200mn revenue in 2022E. Therefore, we expect overall group margin to decline from 31% in 2021 to 27-29% in 22-24E.
- Downgrade to SELL:** To reflect above, we revise down 2022/23E net profits by 18/5%. As a result, we derived our new target price at HK\$8.48/share by using x 8x 2022E PE (in line with industry average of mid to small players).

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	2,866	4,351	5,930	7,695	9,979
YoY growth (%)	41.6	51.8	36.3	29.8	29.7
Net income (RMB mn)	452	525	774	1,042	1,254
EPS (RMB)	0.55	0.62	0.89	1.20	1.44
YoY growth (%)	60.7	12.2	43.5	34.7	20.3
Consensus EPS (RMB)	N.A.	N.A.	1.12	1.53	1.69
P/E (x)	14.8	13.2	9.2	6.8	5.7
P/B (x)	5.5	3.9	3.0	2.2	1.6
Yield (%)	3.4	1.9	2.7	3.7	4.4
ROE (%)	35.3	23.0	27.5	27.9	25.8
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

SELL (Down)

Target Price	HK\$8.48
(Previous TP)	HK\$34.60)
Up/Downside	-14.1%
Current Price	HK\$9.87

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Stock Data

Mkt Cap (HK\$ mn)	8,589
Avg 3 mths t/o (HK\$ mn)	33.92
52w High/Low (HK\$)	27.41/ 7.07
Total Issued Shares (mn)	870

Source: Bloomberg

Shareholding Structure

Wang Zhenhua	68.9%
Free float	31.1%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-28.7%	-24.1%
3-mth	-11.9%	-4.4%
6-mth	-34.8%	-26.3%
12-mth	-53.2%	-39.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: 2021 results summary

RMB mn	2020	2021	YoY	Diff. vs. Estimate
Revenue	2,866	4,351	52%	-3%
- Property management services	1,255	2,100	67%	
- Developer VAS	725	815	12%	
- Community VAS	498	916	84%	
- Smart community	389	518	33%	
Gross profit	881	1,342	52%	
Net profit	452	525	16%	-23%
EPS (RMB)	0.55	0.62	13%	
DPS (RMB)	0.28	0.16	-45%	
Dividend payout ratio	51%	25%	-25.9 ppt	
GP Margin	30.7%	30.8%	0.1 ppt	-0.5 ppt
Net Margin	15.8%	12.1%	-3.7 ppt	-3.2 ppt
Managed GFA (mn sq m)	101.4	153.5	51%	
Contracted GFA (mn sq m)	203.1	278.8	37%	

Source: Company data, CMBIGM

- 2021 results – big miss and dividend cut:** The Company delivered 16% growth in 2021 earnings at RMB525mn, below our 2021E estimate by 23%. The total revenue grew 52% YoY to RMB4.35bn in 2021 mainly driven by PM (+67% YoY) and Community VAS segments (+84% YoY). GP Margin widened slightly of 0.1ppt YoY to 30.8% in 2021. However, NPM was lowered to 12.1% in 2021 (-3.7ppt YoY) because of USD bonds investment and NP came in at RMB525mn. EPS was RMB0.62/share (+13% YoY) and the Company declared a dividend of HK\$0.155/share (-45% YoY), representing 25% payout ratio (-26ppts YoY).
- Basic PM Business** grew 67% YoY in 2021, mainly driven by 51% growth in managed GFA to 154mn sq m (contracted GFA at 279mn sq m). It's worth noting that third-party contribution improved to 47.5% in 2021 (+6.8ppts YoY), almost head to head with parent co. contribution, which proves the Company's trend in exploring third-party expansion and de-risking from parent. However, there is no longer social security subsidies in 2021 so GPM narrowed slightly to 30.1% in 2021 (-1.2ppts YoY).
- Community VAS** rose 84% YoY in 2021 to account for 21% of revenue on community life services (+206% to RMB195mn) and facility management services (+112% to RMB157mn). However, its segment GP Margin declined slightly to 42.4% (-0.6ppts YoY) in 2021.

Figure 2: Earnings Change

(RMB mn)	New		Old		Diff (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	5,930	7,695	6,136	8,526	-3.4%	-9.7%
Gross Profit	1,738	2,214	1,955	2,630	-11.1%	-15.8%
Net profit	774	1,042	943	1,097	-17.9%	-5.0%
EPS (RMB)	0.89	1.20	1.2	1.3	-22.7%	-7.5%
Gross Margin	29.3%	28.8%	31.9%	30.8%	-2.59 ppts	-2.07 ppts
Net Margin	13.0%	13.5%	15.4%	15.6%	-2.35 ppts	-2.06 ppts

Source: CMBIGM estimates

Figure 3: S-Enjoy Valuation



Source: Bloomberg, CMBIGM

Figure 4: 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	32.4	109,061	19.3	13.3	9.5	49.6	38.5
CR MixC Lifestyle	1209 HK	BUY	56.0	36.1	82,284	43.4	31.1	23.0	37.7	34.4
A-Living	3319 HK	HOLD	34.2	12.3	17,409	5.8	4.6	3.7	25.6	25.0
Greentown Services	2869 HK	HOLD	9.5	7.2	23,369	20.5	15.7	12.1	30.3	24.1
Ever Sunshine	1995 HK	HOLD	12.7	10.1	17,666	21.9	15.6	11.3	43.4	38.1
Poly Services	6049 HK	HOLD	53.4	55.9	30,904	28.8	23.2	18.3	23.5	27.0
S-Enjoy	1755 HK	SELL	34.6	9.9	8,589	10.1	7.1	5.2	42.7	36.4
Powerlong Commercial	9909 HK	BUY	33.2	6.0	3,857	7.0	5.0	3.7	38.4	33.3
Excellence CM	6989 HK	BUY	14.9	3.8	4,650	6.9	5.0	3.8	35.5	30.0
Central China New Life	9983 HK	BUY	12.9	4.2	5,381	7.0	5.2	4.0	31.9	30.4
Sino-Ocean Services	6677 HK	BUY	7.1	3.7	4,416	8.7	6.1	4.5	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	2.9	1,195	6.2	4.2	2.9	50.2	44.1
Evergrande Services	6666 HK	BUY	10.4	2.3	24,865	5.6	4.2	3.2	32.1	31.2
Sunac Services	1516 HK	BUY	29.8	4.4	13,545	8.5	5.8	4.2	45.0	37.9
COPH	2669 HK	NR	NA	9.5	31,324	33.8	24.8	19.0	30.7	28.8
Times Neighborhood	9928 HK	NR	NA	2.4	2,336	4.7	2.6	2.2	39.9	30.1
Aoyuan Healthy Life	3662 HK	NR	NA	1.9	1,380	3.0	2.1	1.6	41.3	31.2
Shimao Services	873 HK	NR	NA	4.2	10,292	6.5	4.6	3.3	40.7	38.2
KWG Living	3913 HK	NR	NA	2.9	5,769	6.5	4.3	3.2	51.7	32.7
Jinke Smart Services	9666 HK	NR	NA	25.2	16,419	12.1	8.1	5.7	47.3	41.1
Average						22.6	16.3	12.1	39.4	33.8

Source: Bloomberg, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,866	4,351	5,930	7,695	9,979
Property management services	1,255	2,100	3,057	4,151	5,739
Developer VAS	725	815	913	1,018	1,135
Community VAS	498	916	1,285	1,681	2,091
Smart community	389	520	676	845	1,013
Cost of sales	(1,986)	(3,009)	(4,192)	(5,481)	(7,251)
Gross Profit	881	1,342	1,738	2,214	2,728
Other income	58	76	80	90	100
Selling expenses	(23)	(34)	(47)	(54)	(60)
Administrative expenses	(258)	(424)	(578)	(750)	(973)
Other gains/(losses)	(23)	(136)	(100)	(30)	(30)
Impairment	(21)	(111)	(30)	(38)	(50)
Operating profit	614	713	1,063	1,432	1,716
Finance cost	22	29	35	37	40
Pre-tax Profit	636	742	1,098	1,468	1,755
Income tax	(147)	(183)	(274)	(360)	(421)
PROFIT FOR THE YEAR	489	559	823	1,109	1,334
Non-controlling interest	(37)	(33)	(49)	(67)	(80)
Net Profit attribute to	452	525	774	1,042	1,254

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	329	1,073	1,099	1,156	1,263
Property, plant and	14	59	59	59	59
Others	314	1,014	1,040	1,097	1,204
Current assets	2,985	4,336	5,339	7,239	9,625
Inventories	18	28	39	55	73
Trade and other receivables	593	1,217	1,480	1,854	2,247
Cash and cash equivalents	1,882	2,504	3,374	4,835	6,761
Others	493	587	445	495	545
Total assets	3,314	5,410	6,438	8,395	10,888
Current liabilities	1,856	2,681	3,219	4,164	5,437
Trade and other payables	1,135	1,729	2,180	2,850	3,771
Others	722	952	1,040	1,314	1,667
Non-current liabilities	48	204	115	132	150
Deferred income tax	43	97	100	115	130
Others	5	106	15	17	20
Total liabilities	1,904	2,885	3,334	4,296	5,587
Equity to shareholders	1,282	2,284	2,813	3,742	4,864
Non-controlling interests	128	241	290	357	437
Total Equity	1,410	2,525	3,103	4,098	5,301

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit before tax	636	742	1,098	1,468	1,755
D&A	16	-	5	5	5
Change in working capital	178	-	290	545	853
Others	(43)	-	(274)	(360)	(421)
Net cash from operating	787	742	1,118	1,659	2,192
Capex	(5)	-	(5)	(5)	(5)
JV/Associates	2	3	4	5	6
Others	(92)	(3)	(4)	(5)	(6)
Net cash from investing	(95)	-	(5)	(5)	(5)
Equity raised	11	-	-	-	-
Change of debts	-	-	-	-	-
Others	(154)	-	(243)	(193)	(261)
Net cash from financing	(143)	-	(243)	(193)	(261)
Net change in cash	548	622	870	1,461	1,926
Cash at the beginning of the year	1,339	1,882	2,504	3,374	4,835
Exchange difference	(5)	-	-	-	-
Cash at the end of the year	1,882	2,504	3,374	4,835	6,761

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Sales mix (%)					
Property management services	43.8	48.3	51.5	53.9	57.5
Developer VAS	25.3	18.7	15.4	13.2	11.4
Community VAS	17.4	21.0	21.7	21.8	21.0
Smart community services	13.6	11.9	11.4	11.0	10.2
Total	100.0	100.0	100.0	100.0	100.0
Profit & loss ratios (%)					
Gross margin	30.7	30.8	29.3	28.8	27.3
Net margin	15.8	12.1	13.0	13.5	12.6
Effective tax rate	23.1	24.7	25.0	24.5	24.0
Growth (%)					
Revenue	41.6	51.8	36.3	29.8	29.7
Gross profit	46.8	52.3	29.5	27.4	23.2
Operating profit	63.7	16.0	49.1	34.7	19.8
Net profit	60.4	16.2	47.3	34.7	20.3
Balance sheet ratios					
Current ratio (x)	1.6	1.6	1.7	1.7	1.8
Receivable turnover days	45	52	51	55	55
Returns (%)					
ROE	35.3	23.0	27.5	27.9	25.8
ROA	13.7	9.7	12.0	12.4	11.5
Per share					
EPS (RMB)	0.55	0.62	0.89	1.20	1.44
DPS (RMB)	0.28	0.16	0.22	0.30	0.36
BVPS (RMB)	1.48	2.12	2.70	3.79	5.06

Source: Company data, CMBIGM estimates

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