

Sunac Services (1516 HK)

Very attractive risk/reward after earnings outlook reset; Maintain Buy

After a strong beat in 2021 earnings, we think its new earnings guidance of 25% CAGR in 2021-24E is better than feared given parentco's debt crisis. To achieve that, we think community VAS has high potential to grow at >50% CAGR due to its low penetration rate (measured by VAS/Managed GFA at RMB2.4/sq m in 2021 vs. industry of RMB5/sq m) to support the overall revenue growth and margin. For basic PM, the third-party expansion would drive the growth to lessen the impact of Sunac's GFA delivery and can still support 30% CAGR. After reflecting that in earnings, it is currently trading at 8x 2022E PE which we think has priced in almost all the negatives. Attractive risk/reward and Maintain Buy.

- Parentco risk alleviated on its transparent corporate governance:** management has reiterated its independency when working with parentco. For example, it has never bought any investment products nor had any guarantee for Sunac. As for the account receivables from its parentco, it will also try their best to collect just like other companies.
- Community VAS would be the key to drive earnings growth:** As the other two segments impacted by the property downcycle and debt crisis, Community VAS would take the lead to drive future growth. We think there is ample room to increase as its current VAS/managed GFA was only RMB2.4/sq m, much below industry average of RMB5/sq m. This implies very low penetration rate as Sunac services just started. We forecasted its VAS/managed GFA to catch up with industry by 2024E at RMB5/sq m. Together with decent GFA growth, we expect Community VAS to grow 58% CAGR in 2021-24E and contribute 12% of total revenue by 2024E.
- Commercial operation could be a surprise in the mid-to-long term:** After acquiring Sunac's commercial operation arm last year, the Company has managed its malls and achieved 25% growth in retail sales and rental income of RMB1bn. In addition, it also successfully expanded five third-party malls via light asset model, which is even more than its own opening last year. If the light asset model is sustainable, we believe Sunac Service may grow more meaningfully in the future (GPM as high as 75%).
- Maintain Buy:** We cut 2022/23E revenue by 26%/37% to reflect a slower GFA delivery from parentco and stagnant growth in non-owner VAS. GPM/NPM is estimated to see 3/2ppt YoY contraction in 2022E due to mix change (less non-owner VAS that has higher margin) but remain stable afterwards. As a result, we cut net profits of 2022/23E by 24%/39% to RMB1.5bn/1.9bn and it implies 21% NP growth CAGR in 2021-24E. Our new target price is HK\$7.02/share (+36% upside) based on 12x 2022E PE reflecting parent risk.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	4,625	7,904	10,553	13,182	15,989
YoY growth (%)	63.6	70.9	33.5	24.9	21.3
Net income (RMB mn)	597	1,276	1,509	1,876	2,283
EPS (RMB)	0.25	0.41	0.49	0.61	0.74
YoY growth (%)	113.2	65.4	18.3	24.3	21.7
Consensus EPS (RMB)	0.53	0.80	1.17	2.17	3.17
P/E (x)	17.3	10.5	8.8	7.1	5.8
P/B (x)	N.A.	1.6	1.6	1.7	1.8
ROE (%)	6.2	15.0	18.2	23.4	31.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$7.02
(Previous TP)	HK\$29.80)
Up/Downside	+36.0%
Current Price	HK\$5.16

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	14,438
Avg 3 mths t/o (HK\$ mn)	190.39
52w High/Low (HK\$)	29.40/ 2.90
Total Issued Shares (mn)	3,078

Source: Bloomberg

Shareholding Structure

Sunac Holdings	66.36%
Free float	33.64%

Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-34.2%	-31.9%
3-mth	-41.7%	-38.6%
6-mth	-71.4%	-67.8%
12-mth	-82.3%	-77.2%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: 2021 results summary

RMB mn	2020	2021	YoY	Diff. vs. Estimate
Revenue	4,625	7,904	71%	-11%
- PM	2,774	4,539	64%	
- VAS to non-property	1,673	2,682	60%	
- Community VAS	176	507	188%	
- Commercial	3	176	6527%	
Gross profit	1,276	2,491	95%	
Net profit	597	1,276	114%	2%
EPS (RMB)	0.25	0.41	64%	
DPS (RMB)	0.06	0.12	114%	
Dividend payout ratio	23.2%	30.2%	7 ppt	
GP Margin	27.6%	31.5%	3.9 ppt	4 ppt
Net Margin	12.9%	16.1%	3.2 ppt	2.1 ppt
Managed GFA (mn sq m)	105.4	214.7	104%	
Contracted GFA (mn sq m)	232.1	358.0	54%	

Source: Company data, CMBIGM

- 2021 results – beat:** The Company delivered 114% YoY growth in 2021 earnings at RMB1.3bn, beating its profit alert of 100% by 14ppts and is one of the fastest growing PM companies. The total revenue grew 71% YoY to RMB7.9bn in 2021 mainly driven by its Community VAS segment (+188% YoY), growth in its basic PM segment (+64% YoY) and new business segment community operational services (+6527% YoY). GP Margin boosted 3.9ppt YoY to 31.5% in 2021. NPM also widened 3.2ppt YoY to 16.1% in 2021. EPS was RMB0.41/share (+64% YoY) and the Company declared a dividend of RMB0.124/share (+114% YoY), representing a 30% dividend payout ratio (+7ppts YoY).
- GP margin rose to 32% in 2021:** This GPM increase is mainly driven by PM services at 25.7% (+4.1ppts YoY) and commercial operational services at 79.2% (+58.3ppts YoY). This increase is due to GFA brought scale effect/cost reduction (and digitalization) and the consolidation of Rongle Times in early 2021.
- Basic PM:** PM segment recorded RMB4.5bn in 2021 (+64% YoY) mainly driven by increase in third-party revenue of RMB1.4bn (+112% YoY). The GFA contributed by third-party accounted for 37% (+5ppts) in 2021. The Company gave guidance that third-party GFA will make up >50% by 2024. This is needed for making up of slowed sales from parent co and anticipating a slower parent co GFA conversion rate.
- Community VAS:** In 2021, the Company's community VAS segment grew 188% YoY to RMB507mn, mainly driven by convenience services (+596% YoY to RMB67mn in 1H21), brokerage business (+175% YoY) and home decoration (+142% YoY). Its contribution to the 2021 group revenue has doubled to 6% vs. 4% in 2020, which has beat our expectation (5% in 2021E).

Figure 2: PE trend



Source: Bloomberg

Figure 3: 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	47.6	34.4	115,573	20.4	14.8	10.6	45.1	38.5
CR MixC Lifestyle	1209 HK	BUY	56.0	38.4	87,648	46.2	33.0	24.5	37.7	34.4
A-Living	3319 HK	HOLD	34.2	11.7	16,586	5.5	4.5	3.5	24.9	26.1
Greentown Services	2869 HK	HOLD	7.9	7.9	25,641	22.5	18.8	14.8	20.9	28.6
Ever Sunshine	1995 HK	HOLD	12.7	10.7	18,822	23.3	16.6	12.1	43.4	38.1
Poly Services	6049 HK	HOLD	53.4	57.2	31,623	29.5	23.8	18.7	23.5	26.8
S-Enjoy	1755 HK	SELL	34.6	9.4	8,180	9.6	7.3	5.5	33.1	36.0
Powerlong Commercial	9909 HK	BUY	33.2	6.2	3,980	7.2	5.1	3.9	38.3	33.3
Excellence CM	6989 HK	BUY	14.9	4.1	4,967	7.4	5.3	3.9	36.6	32.2
Central China New Life	9983 HK	BUY	12.9	4.4	5,572	7.2	5.4	4.1	31.7	30.4
Sino-Ocean Services	6677 HK	BUY	7.1	3.9	4,594	9.0	6.2	4.6	43.7	36.4
New Hope Services	3658 HK	BUY	4.4	2.3	1,905	8.1	4.8	NA	55.5	NA
Redsun Services	1971 HK	BUY	9.4	3.0	1,224	6.4	4.3	3.0	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	7.0	5.2	15,885	10.5	8.8	7.1	45.8	37.7
COPH	2669 HK	NR	NA	9.5	31,291	33.8	24.5	18.8	38.9	30.0
Times Neighborhood	9928 HK	NR	NA	2.4	2,346	4.8	2.6	2.2	39.9	30.1
Aoyuan Healthy Life	3662 HK	NR	NA	1.9	1,351	2.9	2.0	1.6	41.3	31.2
Shimao Services	873 HK	NR	NA	4.4	10,811	6.9	4.9	3.5	40.7	38.2
KWG Living	3913 HK	NR	NA	3.0	6,112	6.9	4.9	3.7	40.3	30.4
Jinke Smart Services	9666 HK	NR	NA	28.3	18,476	13.6	9.2	6.4	47.8	41.7
Average						23.8	17.5	13.0	38.0	34.2

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	4,625	7,904	10,553	13,182	15,989	Profit before tax	817	1,785	2,110	2,622	3,192
Property management	2,774	4,539	6,540	8,346	10,053	D&A	82	NA	72	79	84
VAS to non-property owners	1,673	2,682	2,973	3,284	3,613	Change in working capital	270	NA	(1,152)	1,327	1,202
Community VAS	176	507	811	1,276	1,993	Others	(151)	NA	(485)	(601)	(715)
Commercial	3	176	229	275	330	Net cash from operating	1,018	NA	546	3,426	3,763
Cost of sales	(3,349)	(5,413)	(7,513)	(9,371)	(11,314)	Capex	(13)	NA	(40)	-	-
Gross Profit	1,276	2,491	3,041	3,810	4,675	Capital Injection	-	NA	-	-	-
Other income	57	67	2	2	-	Others	(1,358)	NA	(1,581)	(2,500)	(3,000)
Selling expenses	(29)	(69)	(63)	(79)	(96)	Net cash from investing	(1,371)	NA	(1,622)	(2,500)	(3,000)
Administrative expenses	(502)	(749)	(950)	(1,186)	(1,439)	Equity raised	7,592	NA	-	-	-
Other gains/(losses)	11	92	100	100	100	Change of debts	(713)	NA	-	-	-
Impairment	(15)	(196)	(32)	(40)	(48)	Others	1,750	NA	(453)	(563)	(685)
Operating profit	798	1,637	2,098	2,607	3,192	Net cash from financing	8,629	NA	(453)	(563)	(685)
Finance cost	10	138	-	-	-	Net change in cash	8,277	(4,059)	(1,529)	363	78
Pre-tax Profit	817	1,785	2,110	2,622	3,192	Cash at the beginning of the year	1,090	9,363	5,304	3,775	4,139
Income tax	(195)	(426)	(504)	(626)	(763)	Exchange difference	(4)	-	-	-	-
PROFIT FOR THE YEAR	622	1,358	1,606	1,995	2,429	Cash at the end of the year	9,363	5,304	3,775	4,139	4,217
Non-controlling interest	25	82	96	120	146						
Net Profit attribute to	597	1,276	1,509	1,876	2,283						
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	1,950	3,249	3,700	4,250	4,500	Sales mix (%)					
Property, plant and equipment	59	122	150	180	200	Property management services	60.0	57.4	62.0	63.3	62.9
Others	1,892	3,127	3,550	4,070	4,300	VAS to non-property owners	36.2	33.9	28.2	24.9	22.6
Current assets	11,009	10,219	11,367	12,272	13,248	Community VAS	3.8	6.4	7.7	9.7	12.5
Inventories	41	58	80	100	113	Commercial	0.1	2.2	2.2	2.1	2.1
Trade and other receivables	1,389	4,405	7,437	7,959	8,844	Total	100.0	100.0	100.0	100.0	100.0
Cash and cash equivalents	9,369	5,304	3,775	4,139	4,217	Profit & loss ratios (%)					
Others	211	452	74	74	74	Gross margin	27.6	31.5	28.8	28.9	29.2
Total assets	12,959	13,468	15,068	16,522	17,748	Net margin	12.9	16.1	14.3	14.2	14.3
Current liabilities	2,956	4,546	6,449	8,317	10,416	Effective tax rate	23.9	23.9	23.9	23.9	23.9
Trade and other payables	1,779	2,745	3,982	5,060	6,223	Growth (%)					
Others	1,177	1,801	2,467	3,256	4,194	Revenue	63.6	70.9	33.5	24.9	21.3
Non-current liabilities	272	250	250	250	250	Gross profit	77.1	95.3	22.1	25.3	22.7
Deferred income tax liabilities	81	161	161	161	161	Operating profit	123.8	105.2	28.2	24.3	22.4
Others	191	89	89	89	89	Net profit	121.1	113.9	18.3	24.3	21.7
Total liabilities	3,228	4,795	6,699	8,567	10,666	Balance sheet ratios					
Equity to shareholders	9,680	8,502	8,294	8,000	7,272	Current ratio (x)	3.7	2.2	1.8	1.5	1.3
Non-controlling interests	51	171	75	(45)	(190)	Receivable turnover days	107	201	256	219	0
Total Equity	9,731	8,673	8,369	7,956	7,082	Returns (%)					
						ROE	6.2	15.0	18.2	23.4	31.4
						ROA	4.6	9.5	10.0	11.4	12.9
						Per share					
						EPS (RMB)	0.25	0.41	0.49	0.61	0.74
						DPS (RMB)	N.A.	0.12	0.15	0.18	0.22
						BVPS (RMB)	4.04	2.74	2.68	2.58	2.35

Source: Company data, CMBIGM estimates

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