

Ever Sunshine LS (1995 HK)

2020 performance is in line with expectations,
maintaining high-quality development
Hong Kong | Property Management | Update Report

26 May 2021

Investment Summary

Eversunshine LS announced its annual results for the year ended December 31, 2020. The company's revenue recorded CNY 3.120 billion, an increase of 66.1% Yoy, which is in line with our expectations (expected: CNY 3.134 billion). Overall GPM increased by 1.8 ppts Yoy to 31.4%, slightly better than expected (expected: 30.6%). The net profit for the year was CNY 390 million, an increase of 74.4% Yoy, which was lower than our expectation (expected: CNY 415 million). The main difference is that the profit attributable to non-controlling interests was higher than our expectation (actual vs. expectation: CNY 52 million vs 38 million). The company declared a final dividend of HKD 8.38 cent per share, with a dividend payout ratio of 30%.

Revenue growth is eye-catching, and the company reserves ample projects

Eversunshine's annual revenue was CNY 3.12 billion, an increase of 66.1% Yoy. In terms of business, Property management services revenue recorded CNY 1.757 billion, an increase of 64.2%, while Community VAS and VAS to non-property owners increased 63.8% and 76.1% Yoy to CNY 790 million and 572 million. Property management services are the company's main source of revenue, accounting for 56.4% of the total revenue. Community VAS and VAS to non-property owners are 25.3% and 18.3%, respectively. The proportion of revenue from Community VAS has increased, an increase of 3.6 ppts from last year. Mainly due to the continuous expansion of customer base and expansion of business scope. As of December 31, 2020, the company's contracted GFA reached 181 million square meters, with 985 contracted projects, an increase of 63.9% and 61.7% Yoy; GFA under management 102 million square meters, an increase of 56.0% Yoy, and the company have sufficient reserves GFA, about 79 million square meters, the future growth is expected to be sustainable.

The goal of tenfold in 5 years is expected to be achieved

The company also gave guidance on profit growth in the next three years at the conference meeting. The management expects that between 2020 and 2023, profits will grow at a CAGR of 45%-55%, which is in line with the company's previous five-year tenfold growth target in 2019 which the company's net profit in 2018 is approximately CNY 100 million, and the company's revenue guidance will reach CNY 1 billion in 2023. According to the company's current operating conditions, we believe that the company can complete its strategic goals on schedule.

The short selling report does not damage the company's fundamentals

GMT, a short-selling agency, issued a short-selling report earlier and raised a number of questions about the company, such as continuous transactions with CIFI and related entities, improved profitability after acquisition, and growth in GFA from third parties that were not controlled by the company's independent third parties. resulting in. In this regard, the company also publicly responded to and clarified the short-selling report. For some of the views, we believe that due to the characteristics of the property management services industry, most property management companies use the provision of services to related parties as their main source of revenue, and Eversunshine LS's revenue from related entities accounted for 17.7% of the total revenue in 2020 which is relatively low in the industry. And through acquisition and post-investment management is also one of the main methods in the property management industry to increase profitability and expand the scale of management. We believe that the company's fundamentals are good, and the short-sale report has less impact on the company, and we are optimistic about the company's continued business development in the future.

BUY (upgrade)

CMP HKD 19.88

(Closing price as of 24 May)

Target HKD 25.87 (+30.1%)

COMPANY DATA

O/S SHARES (MN) :	1,670.4
MARKET CAP (HKD MN) :	31,069
52 - WK HI/LO (HKD):	26.05/10.57

SHARE HOLDING PATTERN %

Lin Zhong & Family	26.34
CIFI HOLDINGS (GROUP) CO. LTD	24.35
Lin Feng	10.28

PRICE VS. HSI



Source: Wind, PSHK

KEY FINANCIALS

CNY mn	FY19	FY20	FY21E	FY22E
Net Sales	1,878	3,119	5,062	7,554
Net Profit	224	390	628	926
EPS, CNY cent	14.58	23.37	37.58	55.45
P/E, x	113.00	70.49	43.83	29.71
BVPS, CNY cent	67.91	172.33	202.90	247.08
P/BV, x	24.26	9.56	8.12	6.67
DPS (HKD cent)	4.79	9.35	15.03	22.18
Div. Yield (%)	0.25	0.48	0.78	1.14

Source: Company reports, Phillip Securities Est.

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The acquisition project is terminated, looking forward to the company's future acquisition plan

The company announced on April 14 that it would terminate the acquisition of 65% of the issued share capital of Zhangtai Service Group Company Limited, mainly due to the determination after due diligence and further consideration of all circumstances of the acquisition. Zhangtai Service is a reputable property management services provider in Guangxi Zhuang Autonomous Region, China. The contracted GFA is approximately 24.78 million square meters, of which GFA under management is approximately 11.97 million square meters. The original purchase price was approximately CNY 434 million, which corresponds to approximately 8x FY20 P/E. On April 16, another company announced the acquisition of an 80% stake in Zhangtai at a consideration of CNY 800 million, corresponding to FY20 P/E of 12x. We believe that although this incident has hindered the company's acquisition and development process, it also reflects the company's detailed acquisition considerations while industry integration. The company's current cash level is sufficient. As of December 31, 2020, the company's cash level is CNY 3.171 billion. It can also be properly grasped when there are new acquisition targets in the future, and expand different business formats through mergers and acquisitions.

Valuation and investment advice

We believe that the company's performance in 2020 is in line with expectations, the expansion of GFA under management is smooth, and the reserve area is sufficient to support future development and achieve the company's 5-year 10-fold guideline. The recent performance of the company's stock price has been affected by the termination of the acquisition, and the stock price has been under pressure in the short term. We believe that the company has sufficient cash and can look for other investment opportunities in the market and look forward to the company's new acquisition plan. The company's long-term investment logic remains unchanged. The company's development practice in Community VAS is the best in the industry. In the future, with industry integration, revenue growth from property management services will slow down, and value-added services will become the second driving force for the company's growth. The company builds brand reputation through high-quality standardized services, and continues to expand Community VAS, and further develops towards life service providers. Based on the increase in the company's reserves, we will increase the company's future revenue growth. The revenue of 2021/2022/2023 will be increased to CNY 5.06 billion/75.5 billion/11.35 billion (previously: 4.04 billion/56.1 billion/80.5 billion), and the company's revenue will be lowered. GPM from the previous 33% to 30% to reflect the transformation of the company's revenue structure. We believe that the PEG valuation method can more effectively reflect the value. The average PEG of the property management industry is 0.98. Considering that the company has more consumer attributes than other peers, we will give the company a 1.1x PEG for 2021 and raise the target price of 25.87 Hong Kong dollars (Previously: HK\$24.38), corresponding to 58.51x /39.66x expected P/E in 2021 and 2022, corresponding to the current price, and the rating was upgraded to BUY. (Closing price as of 24 May)

Financials

Consolidated Statement of Profit or Loss

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,878	3,119	5,062	7,554	11,345
COGS	(1,322)	(2,139)	(3,536)	(5,287)	(7,925)
Gross Profit	555	980	1,526	2,267	3,420
Admin expense	(247)	(333)	(663)	(990)	(1,486)
Other operating gain/(loss)	26	(75)	42	62	92
Operating Profit	335	572	904	1,339	2,025
Net finance income	(6)	26	47	64	87
Associated companies & JVs	(0)	-	-	-	-
Profit before tax	329	598	951	1,403	2,113
Tax	(80)	(156)	(238)	(351)	(528)
NCI	(25)	(52)	(86)	(126)	(181)
Profit for the year	224	390	628	926	1,404
EPS	14.58	23.37	37.58	55.45	84.05

Key Financial Data

Dec Y/E	FY19	FY20	FY21E	FY22E	FY23E
Valuation Ratio					
P/E ratio, x	108.45	67.65	42.07	28.51	18.81
P/B ratio, x	23.28	9.17	7.79	6.40	5.03
Dividend Yield, %	0.26	0.50	0.81	1.19	0.31

Per share data (RMB cent)

EPS	14.58	23.37	37.58	55.45	84.05
BVPS	67.91	172.33	202.90	247.08	314.49
DPS (HKD cent)	4.79	9.35	15.03	22.18	5.79

Growth & Margin

Growth

Revenue Growth	75%	66%	62%	49%	50%
Operating income Growth	154%	71%	58%	48%	51%
Net income Growth	124%	74%	61%	48%	52%

Margin

Gross Profit Margin	30%	31%	30%	30%	30%
Operating profit Margin	18%	18%	18%	18%	18%
Net Profit Margin	12%	13%	12%	12%	12%

Key Ratios

ROE	18%	13%	17%	21%	24%
ROA	9%	8%	10%	12%	13%

Consolidated Statement of Financial Position

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Non Current Asset					
PPE	41	57	79	108	150
GoodWill	431	471	471	471	471
LT investment	51	55	55	55	55
Other	147	153	139	127	118
Total Non Current Assets	670	736	744	762	793
Current Asset					
T/R	342	459	693	1,035	1,554
Inventories	-	-	-	-	-
Restricted Bank deposits	43	7	7	7	7
Cash and cash equivalents	1,284	3,171	4,291	5,834	7,937
Others	139	295	295	295	295
Total Current Assets	1,808	3,931	5,286	7,170	9,793
Total Assets	2,478	4,667	6,030	7,932	10,586
Non Current Liabilities					
Loan	1	5	5	5	5
Deferred tax liabilities	49	47	47	47	47
Others	13	16	17	18	19
Total Non Current Liabilities	63	67	68	69	71
Current Liabilities					
Loan	-	-	-	-	-
T/P	490	693	969	1,448	2,171
B/P	285	363	225	336	505
Others	412	527	1,154	1,599	2,054
Total Current Liabilities	1,187	1,583	2,348	3,384	4,731
Equity					
Share capital	14	15	15	15	15
Reserve	1,134	2,879	3,389	4,127	5,253
Non controlling interest	80	124	210	336	516
Total Equity	1,228	3,017	3,614	4,478	5,784
Total Liabilities and Equity	2,478	4,667	6,030	7,932	10,586

Consolidated Statement of Cash Flow

Dec Y/E, RMB mn	FY19	FY20	FY21E	FY22E	FY23E
EBITDA	355	639	933	1,370	2,061
Chg in working cap	219	84	417	582	650
Others	(13)	107	(0)	(0)	(0)
Tax	(52)	(121)	(125)	(238)	(351)
CFO	509	709	1,225	1,714	2,360
Capex	(18)	(21)	(34)	(47)	(65)
Others	(301)	8	48	64	88
CFI	(318)	(13)	13	17	22
Issue of Shares	-	-	-	-	-
Dividends paid	(31)	(102)	(117)	(188)	(278)
Others	(52)	1,374	(1)	(1)	(1)
CFF	(83)	1,272	(118)	(189)	(279)
Net Change in Cash	108	1,969	1,121	1,542	2,104
Foreign exchange	16	(82)	-	-	-
Cash and CE at Y/E	1,284	3,171	4,291	5,834	7,937

(Closing price as of 24 May)

source: PSHK

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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