

# China / Hong Kong Company Update

# Sunac Services Holdings

Bloomberg: 1516 HK Equity | Reuters: 1516.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Feb 2022

## BUY

Last Traded Price (10 Feb 2022): HK\$9.17 (HSI : 24,924)  
Price Target 12-mth: HK\$15.80 (72% upside) (Prev HK\$16.46)

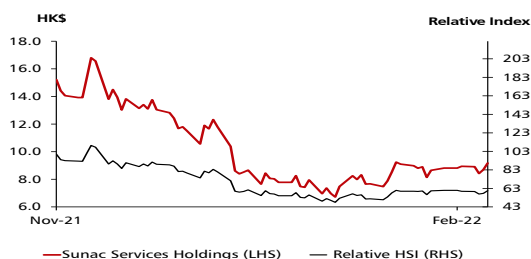
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### What's New

- Solid 55% 3-year earnings CAGR clouded by spillover concerns on parent developer's liquidity position
- Cut FY21-23F earnings by 5-15% to reflect parent developer's likely slowdown in project delivery and presales under its current liquidity struggle
- Maintain BUY with TP of HK\$15.80

### Price Relative



### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	4,623	7,369	10,301	13,923
EBITDA	870	1,457	2,023	2,815
Pre-tax Profit	822	1,612	2,187	3,009
Net Profit	601	1,181	1,603	2,206
Net Profit Gth (%)	122.6	96.6	35.7	37.6
EPS (RMB)	0.25	0.38	0.52	0.71
EPS (HK\$)	0.31	0.47	0.63	0.87
EPS Gth (%)	114.7	51.8	35.7	37.6
Diluted EPS (HK\$)	0.31	0.47	0.63	0.87
DPS (HK\$)	0.09	0.14	0.19	0.26
BV Per Share (HK\$)	4.96	4.15	4.64	5.32
PE (X)	29.8	19.6	14.5	10.5
P/Cash Flow (X)	17.5	17.9	13.3	9.7
P/Free CF (X)	nm	nm	13.3	9.7
EV/EBITDA (X)	9.6	10.4	6.7	4.1
Net Div Yield (%)	1.0	1.5	2.1	2.9
P/Book Value (X)	1.8	2.2	2.0	1.7
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	12.0	11.7	14.4	17.5
Earnings Rev (%)		(5)	(13)	(15)
Consensus EPS (RMB)		0.42	0.63	0.88
Other Broker Recs:		B: 19	S: 2	H: 3

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

## Pick for policy turnaround

### Investment Thesis

Concerns on stake disposal from Sunac China (1918 HK) may have been overplayed. Share price of Sunac Services took a severe hit along with Sunac China upon concerns that the liquidity struggle of the latter may lead to further disposals of its stake in the company. We are more optimistic than the market on this front. Sunac has actively monetised its assets and recouped >US\$4bn of cash over the past quarter for its near-term bond repayments. This, along with Sunac Service's currently distressed valuation and share price, points to manageable risk on further share disposals in our view.

**Solid fundamentals despite potential scale contraction of developer parent.** We have cut our FY21-23F earnings estimates by 5-15% (c.7-17% below market) to reflect Sunac China's likely slowdown in presales (our estimates factored in 15% and 5% decline in its FY22 and FY23 presales) and project delivery given that it has suspended land acquisitions and construction activities to preserve its cashflows. That said, this will still translate into a solid 3-year earnings CAGR of 55%. Despite likely weaker contribution from its parent, we believe its growth prospects can be supplemented by its robust progress in the 3<sup>rd</sup> party space (c.40% of its incremental contracted GFA came from public auctions, c.30% from M&A and 30% from parent in 2021). Therefore, we believe Sunac Services' solid growth prospects has been overshadowed by spillover concerns on Sunac China.

### Valuation:

Our new TP is based on 26.0x FY22F EPS, which is on par to the company's average 1-year forward PE in 4Q21.

### Where we differ:

**The pick for sentiment and valuation recovery in the China Property Sector.** Sunac Services has the highest share price correlation to its related developer within the sector since 2H21. Accordingly, we believe the counter will likely see one of the strongest rebounds in price and valuation when sentiment on the property sector settles and recovers.

### Key Risks to Our View:

Further share disposal by major shareholder; unexpected policy tightening on the property sector; significant deterioration in Sunac China's development scale; share placement

### At A Glance

Issued Capital (m shrs)	3,104
Mkt Cap (HK\$m/US\$m)	28,464 / 3,654
Major Shareholders (%)	
Sunac China Holdings Ltd	50.0
Free Float (%)	50.0
3m Avg. Daily Val. (US\$m)	30.97
GICS Industry: Real Estate / Real Estate Management & Development	



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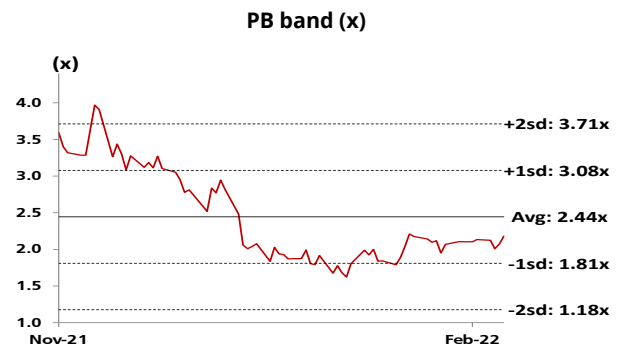
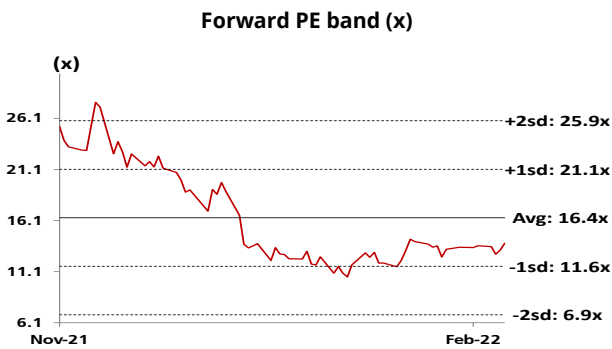


## Sunac Services Holdings

### Company Background

Spun-off for listing on the HKEx in Nov-20, Sunac Services was founded in 2004 and served as the PM arm of Sunac China. Having operated for over 16 years with a focus on relatively higher end projects Tier 1 and 2 cities, the property manager is often recognised as a high-quality property service provider. Leveraged upon the rapid development scale expansion of Sunac China and the gradual expansion into third party projects, contracted and managed GFA of Sunac Services each grew by more than sixfold and eightfold from 57m sm and 20m sm in contracted and managed GFA as at Dec-17 to 321.7m sm and 173.4m sm respectively as at Jun-21.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Sunac Services Holdings

### Key Assumptions

FY Dec	2021F	2022F	2023F
Average property management fee growth (%)	(0.1)	0.0	0.0
Average GFA conversion rate for new projects from 3rd party (years)	0.9	0.9	0.9
Average GFA conversion rate for projects from Sunac China (years)	2.5	2.5	2.5

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Property management services	1,148	2,774	4,652	7,099	9,905
Value-added services to non-property owners	1,572	1,673	2,272	2,280	2,412
Community living services	107	176	444	922	1,607
<b>Total</b>	<b>2,827</b>	<b>4,623</b>	<b>7,369</b>	<b>10,301</b>	<b>13,923</b>
<b>Gross Profit (RMB m)</b>					
Property management services	136	599	1,091	1,684	2,407
Value-added services to non-property owners	547	595	841	844	892
Community living services	37	82	189	393	680
<b>Total</b>	<b>720</b>	<b>1,275</b>	<b>2,121</b>	<b>2,920</b>	<b>3,979</b>
<b>Gross Profit Margins (%)</b>					
Property management services	11.8	21.6	23.4	23.7	24.3
Value-added services to non-property owners	34.8	35.6	37.0	37.0	37.0
Community living services	34.6	46.3	42.6	42.6	42.3
<b>Total</b>	<b>25.5</b>	<b>27.6</b>	<b>28.8</b>	<b>28.3</b>	<b>28.6</b>

Source: Company, DBS HK

## Sunac Services Holdings

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	2,827	4,623	7,369	10,301	13,923
Cost of Goods Sold	(2,107)	(3,347)	(5,248)	(7,381)	(9,944)
<b>Gross Profit</b>	<b>720</b>	<b>1,275</b>	<b>2,121</b>	<b>2,920</b>	<b>3,979</b>
Other Opg (Exp)/Inc	(364)	(472)	(737)	(979)	(1,253)
<b>Operating Profit</b>	<b>357</b>	<b>803</b>	<b>1,384</b>	<b>1,942</b>	<b>2,726</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	1	9	15	23	30
Net Interest (Exp)/Inc	(12)	10	213	222	253
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>346</b>	<b>822</b>	<b>1,612</b>	<b>2,187</b>	<b>3,009</b>
Tax	(76)	(197)	(382)	(517)	(712)
Minority Interest	0	(25)	(49)	(66)	(91)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>270</b>	<b>601</b>	<b>1,181</b>	<b>1,603</b>	<b>2,206</b>
Net Profit before Except.	270	601	1,181	1,603	2,206
EBITDA	372	870	1,457	2,023	2,815
<b>Growth</b>					
Revenue Gth (%)	53.5	63.5	59.4	39.8	35.2
EBITDA Gth (%)	103.4	133.9	67.5	38.8	39.1
Opg Profit Gth (%)	106.4	125.3	72.3	40.3	40.4
Net Profit Gth (%)	174.5	122.6	96.6	35.7	37.6
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	25.5	27.6	28.8	28.3	28.6
Opg Profit Margin (%)	12.3	17.0	18.5	18.7	19.5
Net Profit Margin (%)	9.5	13.0	16.0	15.6	15.8
ROAE (%)	137.8	12.0	11.7	14.4	17.5
ROA (%)	13.8	7.9	8.5	10.0	11.7
ROCE (%)	47.0	11.6	10.1	12.9	15.9
Div Payout Ratio (%)	0.0	30.0	30.0	30.0	30.0
Net Interest Cover (x)	30.1	NM	NM	NM	NM

Source: Company, DBS HK

## Sunac Services Holdings

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	29	59	41	23	6
Invt in Associates & JVs	0	0	2,537	2,537	2,537
Other LT Assets	124	1,890	1,850	1,809	1,769
Cash & ST Invt	1,090	9,579	8,184	9,796	11,966
Inventory	82	41	65	91	123
Debtors	586	1,351	2,167	3,030	4,095
Other Current Assets	359	37	37	37	37
<b>Total Assets</b>	<b>2,271</b>	<b>12,957</b>	<b>14,880</b>	<b>17,323</b>	<b>20,532</b>
ST Debt	0	0	0	0	0
Creditors	1,087	1,773	2,834	3,962	5,355
Other Current Liab	664	1,177	1,177	1,177	1,177
LT Debt	0	0	0	0	0
Other LT Liabilities	22	272	272	272	272
Shareholder's Equity	367	9,684	10,497	11,746	13,471
Minority Interests	131	51	100	166	258
<b>Total Cap. &amp; Liab.</b>	<b>2,271</b>	<b>12,957</b>	<b>14,880</b>	<b>17,323</b>	<b>20,532</b>
Non-Cash Wkg. Capital	(723)	(1,521)	(1,742)	(1,981)	(2,277)
Net Cash/(Debt)	1,090	9,579	8,184	9,796	11,966
Debtors Turn (avg days)	63.2	76.5	87.1	92.1	93.4
Creditors Turn (avg days)	151.3	158.7	162.0	169.4	172.0
Inventory Turn (avg days)	11.2	6.8	3.7	3.9	4.0
Asset Turnover (x)	1.4	0.6	0.5	0.6	0.7
Current Ratio (x)	1.2	3.7	2.6	2.5	2.5
Quick Ratio (x)	1.0	3.7	2.6	2.5	2.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

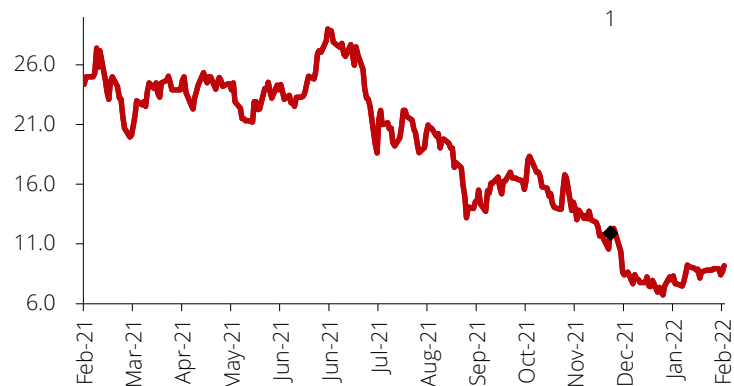
### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	346	822	1,612	2,187	3,009
Dep. & Amort.	35	82	58	58	58
Tax Paid	(26)	(132)	(382)	(517)	(712)
Assoc. & JV Inc/(loss)	(1)	(9)	0	0	0
(Pft)/ Loss on disposal of FAs	0	2	0	0	0
Chg in Wkg.Cap.	0	0	0	0	0
Other Operating CF	353	258	8	17	43
<b>Net Operating CF</b>	<b>707</b>	<b>1,024</b>	<b>1,297</b>	<b>1,745</b>	<b>2,398</b>
Capital Exp.(net)	(26)	(1,073)	(2,537)	0	0
Other Invt.(net)	5	(350)	0	0	0
Invt in Assoc. & JV	0	(1)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	624	53	215	224	255
<b>Net Investing CF</b>	<b>603</b>	<b>(1,371)</b>	<b>(2,322)</b>	<b>224</b>	<b>255</b>
Div Paid	0	0	(180)	(354)	(481)
Chg in Gross Debt	(615)	0	0	0	0
Capital Issues	0	7,592	(188)	0	0
Other Financing CF	21	1,034	(6)	(7)	(8)
<b>Net Financing CF</b>	<b>(594)</b>	<b>8,626</b>	<b>(375)</b>	<b>(362)</b>	<b>(489)</b>
Currency Adjustments	2	3	4	5	6
Chg in Cash	718	8,282	(1,396)	1,613	2,170
Opg CFPS (RMB)	0.31	0.43	0.42	0.56	0.77
Free CFPS (RMB)	0.29	(0.02)	(0.40)	0.56	0.77

Source: Company, DBS HK

**Sunac Services Holdings**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	7-Dec-21	HK\$10.56	HK\$16.46	Buy

Source: DBS HK

Analyst: Jason LAM  
 Danielle WANG CFA,  
 Ken HE CFA,  
 Zoe Zhang  
 Dexter CHUN  
 Ben WONG

## Sunac Services Holdings

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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## Sunac Services Holdings

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