

China / Hong Kong Company Update

CIFI Ever Sunshine Services

Bloomberg: 1995 HK Equity | Reuters: 1995.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Mar 2022

BUY

Last Traded Price (24 Mar 2022): HK\$10.44 (HSI : 21,946)
Price Target 12-mth: HK\$16.02 (53% upside) (Prev HK\$18.75)

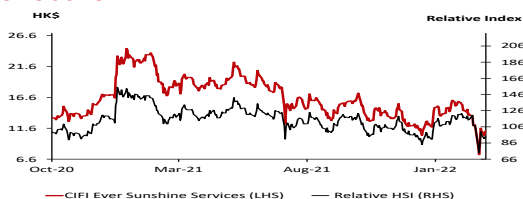
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What's New

- FY21 results in line, with impact from an overall GPM miss offset by lower-than-expected effective tax rate
- Proactively looking at M&A opportunities to supplement its unaffected growth prospects
- Revised up FY22-23 earnings by 3%-8% to factor in 1) M&A growth assumptions and 2) improved SG&A and effective tax rate outlook
- Maintain BUY with a lower HK\$16.02 TP on an adjusted valuation base

Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2020A	2021A	2022F	2023F
Turnover	3,120	4,703	7,388	9,636
EBITDA	626	949	1,326	1,766
Pre-tax Profit	598	891	1,329	1,784
Net Profit	390	617	926	1,242
Core Profit	390	617	926	1,242
Core Profit Gth (%)	74.4	58.1	50.1	34.2
Core EPS (RMB)	0.24	0.37	0.53	0.71
Core EPS (HK\$)	0.30	0.45	0.65	0.87
Core EPS Gth (%)	66.4	51.0	44.1	34.2
Core PE (X)	35.1	23.2	16.1	12.0
P/Cash Flow (X)	19.3	18.4	9.3	7.9
EV/EBITDA (X)	17.0	11.1	7.7	4.9
DPS (HK\$)	0.09	0.14	0.19	0.26
Div Yield (%)	0.9	1.4	1.9	2.5
Net Gearing (%)	CASH	CASH	CASH	CASH
ROE (%)	19.3	16.8	19.2	22.0
Book Value (HK\$)	2.21	3.24	3.62	4.30
P/Book Value (X)	4.7	3.2	2.9	2.4

EPS Rev (%): 8 3
Consensus EPS (RMB) 0.53 0.74
Other Broker Recs: B:33 S:0 H:2

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

Growth prospects intact

Investment Thesis

Future growth prospects intact. On one hand, Ever Sunshine should be able to meet its 70-80m sm managed GFA growth target from both its related developer CIFI (884 HK, delivered c.10m sm GFA in FY21A) and third-party projects (added c.41m sm in FY21A). Community VAS was slower than expected in FY21A, but this was primarily a result of the company halting its expansion to review and optimise its product offerings, and it should be able to resume its growth trend from FY22 onwards. Growth in non-property owner VAS will likely moderate but should still be able to hold up, given CIFI's solid liquidity position and thus less affected operations. These, together with supplements from potential M&As, should place the company well to achieve its 50%+ earnings growth target in FY22F.

Less affected by the ongoing property market turbulence. Most of Ever Sunshine's incremental GFA came from public third-party auctions and M&A (85% of managed GFA increase in FY21A) and non-residential projects (c.43% of increment in FY21A). Its growth outlook is therefore less prone to risks of a potential slowdown in the development pace of CIFI and of the overall property market. Meanwhile, CIFI's presales and project deliveries should be able to largely hold up in our view, for it has been able to showcase its capability to refinance in Mar 22 (secured a Rmb5bn M&A loan from Ping An Bank, and Rmb1bn 2+2 MTN). Related developers' contribution in form of GFA support in the basic PM business and non-property owner VAS earnings should still be relatively certain.

Valuation:

Our TP is now based on 25.8x FY22F EPS, which is on par with the large-cap average 1-year forward PE in 2H21 (vs our previous target of 32.7x, Ever Sunshine's 2H21 1-year forward PE average).

Where we differ:

Sell-off on spillover concerns from the property sector has been overplayed. We believe Ever Sunshine is less affected in terms of the growth outlook by both a slowdown of its related developer (CIFI) and the overall physical market as compared to its peers.

Key Risks to Our View:

Significant presales slowdown of CIFI and of the physical market, fluctuations in labour costs; if it fails to secure third-party projects at reasonable margins; and a deterioration in fee collection rates.

At A Glance

Issued Capital (m shrs)	1,670
Mkt Cap (HK\$/US\$m)	18,570 / 2,374
Major Shareholders (%)	
CIFI Holdings Group Co Ltd	23.2
Elite Force Development Ltd.	20.7
Lin (Feng)	8.8
Capital Research Global Investors	7.1
Cederberg Capital UK LLP	5.7
Free Float (%)	34.4
3m Avg. Daily Val. (US\$m)	13.34
GICS Industry: Real Estate / Real Estate Management & Development	



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FY21 result summary

FY Dec (Rmb mn)	FY20	FY21	y-o-y %	FY21 comments
Revenue	3,120	4,703	51%	
Property management services	1,757	2,654	51%	Driven by a 68% growth of GFA under management
Non-property owner VAS	572	867	52%	Led by a 200% growth of additional tailored services
Community VAS	790	1,099	39%	Led mainly by 68% growth of property agency services and partly offset by 25% growth of home-living services which accounted for c.52% of segment's total revenue
City services	-	81	n.a	
Others	1	1	40%	
Cost of sales and services	(2,140)	(3,403)	59%	
Gross profit	980	1,300	33%	
Other income and gains, net	(10)	122	n.a	Due to increase in bank interest income and gain from FV change of financial assets at FVTPL and decrease in FX loss
SG&A expenses	(333)	(465)	40%	SG&A % of revenue improved to 9.9% (vs 10.7% in FY20)
Expected credit loss on financial assets	(32)	(62)	94%	
Other expense	(5)	(0)	n.a	
Operating Profit	600	895	49%	
Finance cost, net	(1)	(3)	133%	
Share of profits of associate	0	0	n.a	
Profit before tax	598	891	49%	
Income tax expense	(156)	(199)	28%	Effective tax rate fell c.4ppt due to increase in the no. of company's subsidiaries with preferential tax rate of 15%
Profit for the year	443	693	56%	
Attributable to:				
Owners of the company	390	617	58%	
NCI	52	76	45%	
Gross profit margin (%)	31.4%	27.6%	↓ 4 ppts	Led mainly by 1) higher contribution from lower-margined non-property owner VAS; and 2) a drop in margin across all business segments
Operating profit margin (%)	19.2%	19.0%	↓ 0 ppts	
Net profit margin (%)	12.5%	13.1%	↑ 1 ppts	
SG&A as % of top line	10.7%	9.9%	↓ 1 ppts	
Effective Tax Rate (%)	26.0%	22.3%	↓ 4 ppts	
Reported EPS (RMB)	0.24	0.37	51%	
DPS (HKD)	0.08	0.13	55%	
Dividend payout ratio (%)	30%	31%	↑ 1 ppts	
	FY20	FY21		
Net debt to equity ratio	Net Cash	Net Cash		
Cash level (Rmb m)	3,177	3,996	26%	
Contracted GFA ('000 sm)	181,192	270,767	49%	
GFA under management ('000 sqm)	101,625	171,037	68%	

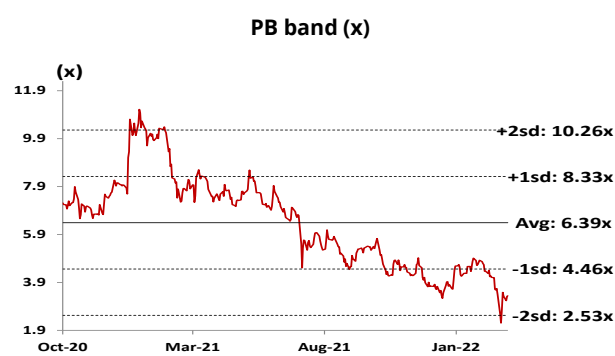
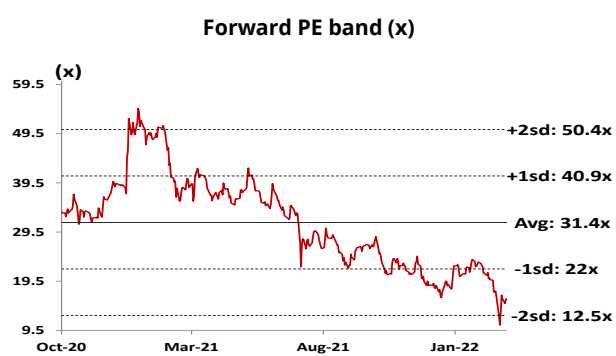
Source: Company, DBS HK

CIFI Ever Sunshine Services

Company Background

Spun off for listing on the HKEx in Dec 18, Ever Sunshine was founded by the Lin Family in 2002 and served as the property management arm of CIFI. As at Jun 21, it has a contracted GFA of c.271m sm and managed GFA of c.171m sm with a presence in 124 cities in 10 key economic regions. The company is ranked 12th in terms of overall strength, according to the China Index Academy (CIA) in 2020.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

CIFI Ever Sunshine Services

Key Assumptions

FY Dec	2022F	2023F
Average property management fee growth (%)	(8.6)%	(1.4)%
Average GFA conversion rate for new projects from 3rd party (years)	1.5	1.5
Average GFA conversion rate for projects from CIFI (years)	2.4	2.4

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Property Management Services	1,070	1,757	2,654	4,509	5,887
Value-added services to non-	325	572	867	1,055	1,209
Value-added services to property	483	791	1,100	1,719	2,404
Others	N/A	N/A	81	105	136
Total	1,878	3,120	4,703	7,388	9,636

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Turnover	1,878	3,120	4,703	7,388	9,636
Cost of Goods Sold	(1,322)	(2,140)	(3,403)	(5,377)	(7,010)
Gross Profit	555	980	1,300	2,011	2,627
Other Opg (Exp)/Inc	(244)	(407)	(405)	(739)	(916)
Operating Profit	311	572	895	1,272	1,711
Associates Inc	0	0	0	0	0
Net Interest (Exp)/Inc	18	26	(3)	57	72
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	329	598	891	1,329	1,784
Tax	(80)	(156)	(199)	(292)	(392)
Minority Interest	(25)	(52)	(76)	(111)	(149)
Net Profit	224	390	617	926	1,242
Core Profit	224	390	617	926	1,242
Sales Gth (%)	74.5	66.1	50.8	57.1	30.4
Net Profit Gth (%)	122.7	74.4	58.1	50.1	34.2
Core Profit Gth (%)	122.7	74.4	58.1	50.1	34.2
Gross Mgn (%)	29.6	31.4	27.6	27.2	27.3
Core Profit Margin (%)	11.9	12.5	13.1	12.5	12.9
Tax Rate	24.2	26.0	22.3	22.0	22.0

Source: Company, DBS HK

CIFI Ever Sunshine Services

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	101	91	372	672	672
Invt in Assocs & JVs	51	55	59	59	59
Other LT Assets	519	590	1,507	1,453	1,399
Cash & ST Invt	1,327	3,177	3,996	5,114	6,714
Other Current Assets	481	753	1,332	1,779	2,156
Total Assets	2,478	4,667	7,266	9,076	10,999
ST Debt	0	0	0	0	0
Creditors	490	693	1,106	1,738	2,267
Other Current Liab	697	889	1,331	1,666	1,947
LT Debt	0	0	0	0	0
Other LT Liabilities	63	67	137	137	137
Minority Interests	80	124	248	359	508
Shareholder's Equity	1,148	2,893	4,444	5,176	6,141
Total Capital	2,478	4,667	7,266	9,076	10,999
Share Capital (m)	1,536	1,609	1,684	1,754	1,754
Net Cash/(Debt)	1,327	3,177	3,996	5,114	6,714
Working Capital	(706)	(829)	(1,105)	(1,625)	(2,058)
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

Source: Company, DBS HK

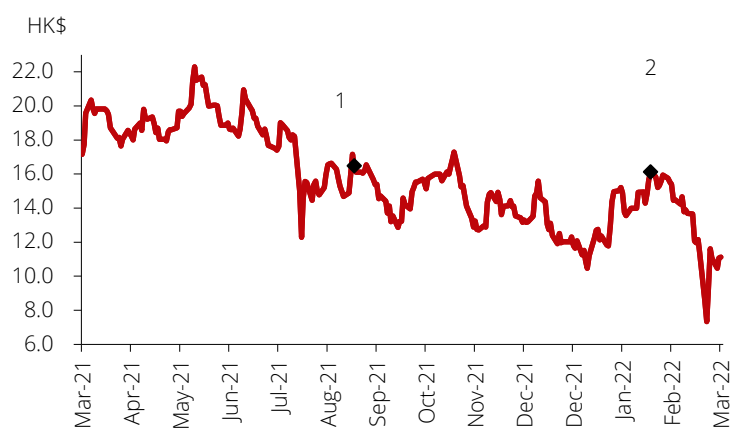
Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Profit Before Tax	329	598	891	1,329	1,784
Assoc. & JV Inc/(loss)	0	0	0	0	0
Tax Paid	(52)	(121)	(199)	(292)	(392)
Depr/Amort	40	64	54	54	54
Chg in Wkg. Cap.	93	42	32	520	432
Other Non-Cash	99	126	0	0	0
Operating CF	509	709	779	1,611	1,878
Net chg in inv.	0	1	0	0	0
Assoc, MI, Invsmt	(318)	(14)	(1,052)	(300)	0
Investing CF	(318)	(13)	(1,052)	(300)	0
Net Chg in Debt	3	7	0	0	0
New Capital	56	1,441	1,108	0	0
Dividend	(31)	(102)	(117)	(194)	(278)
Other Financing CF	(112)	(73)	97	0	0
Financing CF	(83)	1,272	1,088	(194)	(278)
Chg in Cash	124	1,887	814	1,117	1,600
Chg in Net Cash	166	1,851	819	1,117	1,600

Source: Company, DBS HK

CIFI Ever Sunshine Services

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	26-Aug-21	HK\$17.16	HK\$24.70	Buy
2:	11-Feb-22	HK\$15.66	HK\$18.75	Buy

Source: DBS HK

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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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