

Ever Sunshine (1995 HK) Growing by acquisitions

- ES acquired a 50% stake in QYPMS at 4.7x historical P/E only
- ES's CVAS business should benefit as residents spend more time at home during the coronavirus outbreak
- Maintain **BUY** with revised TP of HK\$9.70 based on DCF valuation with a WACC of 9%

Attractively priced acquisition of Qingdao Yinshengtai Property Management Services (QYPMS). In Feb 2020, Ever Sunshine (ES) announced to acquire a 50% stake in Qingdao Yinshengtai Property Management Services (QYPMS) at RMB 8.644mn. The target company has 18 projects, mainly located in Qingdao and Jinan, with an estimated total GFA under management of 3.2mn sqm. The transaction implies a historical P/E of 4.7x only (vs. 11-14x for previous M&As in the sector over the last 12 months), based on 2019 net profit of RMB 3.67mn (+1% YoY). QYPMS's revenue jumped 21% YoY to RMB 92mn in 2019, but net margin was at 4.0% (-0.8ppt YoY), much lower than the peer average of 13.6%. We believe its margin can be boosted with the introduction of CVAS as well as better cost control supported by the economies of scale after the integration. The transaction reflected ES ability to attain bargain deals amid the COVID-19 outbreak.

Community value-added services (CVAS) set to grow faster on increased use during the coronavirus outbreak. Many major cities in China, such as Beijing, Shanghai and Guangzhou, demand the residential communities to adopt a closed-off management for epidemic prevention and control. To minimize infection risk, residents opt to stay home, which would encourage the habitual use of CVAS provided by property management. Revenue from CVAS grew 162%YoY to RMB 141mn in 1H19, accounting for 19.3% of ES's total revenue (+1.6ppt compared to FY18).

Maintain BUY with revised TP of HK\$ 9.70. We lower our net profit forecast by 12.3% for 2020E on subdued outlook of the Group's VASNPO business as contracted sales of its parent are likely to slow. Our DCF-based TP is lifted to HK\$ 9.70 (from HK\$ 4.70) as we change our WACC from 11% to 9% given reduced assets risk, as its high proportion of residential GFA should benefit from favorable policies launched. Maintain **BUY**.

Risk factors: 1) Lack of a comprehensive online platform for O2O services; 2) Substantial amount of related-party transactions (19.5% of total revenue in 2018); 3) Rising SG&A due to integration of acquired companies.

Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (RMB mn)	725	1,076	1,931	2,917	4,089
Chg (% YoY)	51.1	48.3	79.5	51.0	40.2
Core profit (RMB mn)	76	126	228	336	501
Chg (% YoY)	127.5	64.7	81.4	47.1	49.3
EPS (RMB)	0.07	0.11	0.15	0.22	0.33
Chg (% YoY)	127.5	59.8	36.3	47.1	49.3
BVPS (RMB)	0.22	0.59	0.70	0.87	1.12
Chg (% YoY)	45.8	167.8	19.7	24.2	29.1
P/E (x)	110.9	69.4	50.9	34.6	23.2
P/B (x)	34.6	12.9	10.8	8.7	6.7
ROE (%)	31.2	11.2	21.2	25.1	29.0
ROA (%)	10.9	6.7	13.3	16.0	19.0
DPS (HK\$)	-	0.02	0.04	0.05	0.08
Yield (%)	-	0.3	0.4	0.6	1.0
Net gearing (%)	Net Cash	Net Cash	Net cash	Net cash	Net cash

Source(s): The Company, ABCI Securities estimates

Company report

Mar 6, 2020

Rating: **BUY**

TP: HK\$ 9.70

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Share price (HK\$)	8.47
Est. share price return	14.5%
Est. dividend yield	0.6%
Est. total return	15.1%
Previous Rating & TP	4.70
Previous Report Date	25 Jul 2019

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	8.6/2.6
Issued shares (mn)	1,536
Market cap (HK\$ mn)	13,010
3-month avg daily turnover (HK\$ mn)	41.07
Major shareholder(s) (%):	
Lin's Family	68.8

Source(s): Bloomberg, ABCI Securities

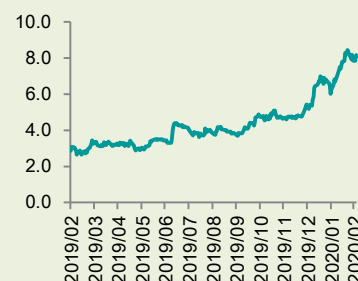
Share Performance (%)

	Absolute	Relative*
1-mth	21.2	22.5
3-mth	69.9	70.9
6-mth	101.0	104.5

*Relative to HSI

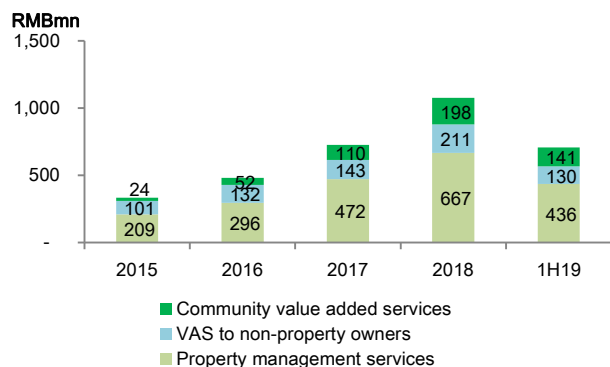
Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



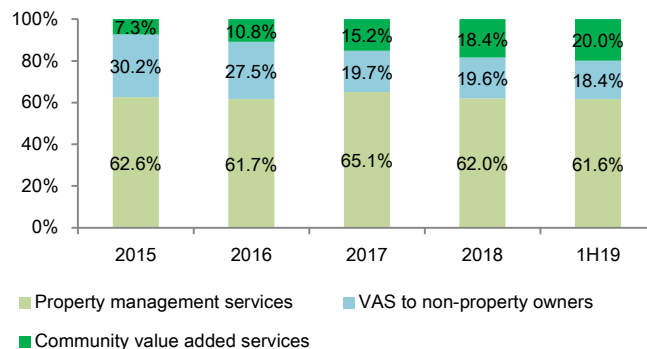
Source(s): Bloomberg, ABCI Securities

Exhibit 1: Ever Sunshine's revenue by business segment



Source(s): Company, ABCI Securities

Exhibit 2: Ever Sunshine's revenue by business segment as a percentage of revenue



Source(s): Company, ABCI Securities

Exhibit 3: Changes in TP and profit forecast

	New	Old	Change	Reason
TP (HK\$)	9.70	4.70	106.4%	Reduce WACC from 11% to 9%
Core profit (RMBmn)				
- 2019E	228	228	-	
- 2020E	336	383	(12.3%)	Lower revenue from VAS to NPO due to slower presales activities from CIFI amid the coronavirus outbreak

Source(s): Company, ABCI Securities estimates

Financial statements

Consolidated income statement (2017A-2021E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Revenue	725	1,076	1,931	2,917	4,089
Cost of services	(542)	(767)	(1,369)	(2,049)	(2,863)
Gross Profit	183	309	562	867	1,226
Administrative expenses	(88)	(166)	(255)	(392)	(531)
EBIT	95	143	308	476	695
Other income	10	16	5	5	5
Finance cost	-	(0)	-	-	-
Finance income	-	-	10	9	12
Share of results of associates	1	9	-	-	-
Exceptional items	-	(25)	-	-	-
Other expenses	(1)	(1)	-	-	-
Profit before tax	105	142	322	490	712
Tax	(28)	(42)	(81)	(122)	(178)
Profit after tax	76	100	242	367	534
Minority interest	-	0	(14)	(32)	(33)
Net profit	76	101	228	336	501
Core profit*	76	126	228	336	501
Per share					
EPS (RMB)	0.07	0.11	0.15	0.22	0.33
DPS (HK\$)	-	0.02	0.04	0.05	0.08
Payout ratio (%)	0%	21%	25%	25%	25%
BVPS (RMB)	0.22	0.59	0.70	0.87	1.12
Growth %					
Revenue	51.1%	48.3%	79.5%	51.0%	40.2%
Gross Profit	74.8%	68.9%	82.0%	54.3%	41.3%
EBIT	135.4%	50.7%	114.8%	54.7%	46.2%
Core profit	127.5%	64.7%	81.4%	47.1%	49.3%
Margin %					
Gross margin	25.2%	28.7%	29.1%	29.7%	30.0%
EBIT margin	13.1%	13.3%	15.9%	16.3%	17.0%
Core net margin	10.5%	11.7%	11.8%	11.5%	12.3%
Revenue breakdown					
Property management services	472	667	1,360	2,228	3,213
VAS to non-property owners	143	211	251	266	290
Community value added services	110	198	319	423	585
Total	725	1,076	1,931	2,917	4,089
Key assumptions					
Contracted GFA (mn sqm)	33.4	65.6	102.3	147.5	197.3
GFA under management (mn sqm)	26.5	40.2	71.4	107.6	147.4

* Excluding listing expenses and other exceptional items

Source(s): The Company, ABCI Securities estimates



Consolidated balance sheet (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Current assets	617	1,384	1,158	1,558	2,117
Bank balances and cash	438	1,160	795	1,025	1,373
Pledged bank deposit	0	10	10	10	10
Trade receivables	121	162	301	471	683
Inventories	0	0	0	0	0
Income tax recoverable	2	0	0	0	0
Other current assets	55	51	51	51	51
Non-current assets	85	109	564	538	516
Property, plant and equipment	15	27	37	47	57
Intangible assets	0	0	214	178	146
Goodwill	17	17	248	248	248
Other non-current assets	53	65	65	65	65
Total Assets	702	1,493	1,721	2,096	2,633
Current Liabilities	445	574	612	695	810
Accruals and other payables	265	287	287	287	287
Contract liabilities	120	171	171	171	171
Trade payables	37	72	110	192	308
Other current liabilities	24	44	44	44	44
Non-current liabilities	12	16	16	16	16
Deferred Tax Liabilities	12	16	16	16	16
Total Liabilities	458	590	628	711	826
Net Assets	245	903	1,093	1,385	1,807
Shareholders' Equity	245	899	1,076	1,336	1,725
Minority Interest	0	4	17	49	82
Total Equity	245	903	1,093	1,385	1,807
Key ratio					
Gross debt (RMB mn)	-	9	9	9	9
Net debt/ (cash) (RMB mn)	(438)	(1,151)	(785)	(1,016)	(1,363)
Net gearing (%)	-179%	-128%	-72%	-73%	-75%

Source(s): The Company, ABCI Securities estimates



Consolidated cash flow statement (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
EBITDA	97	145	325	511	727
Change in Working Capital	108	55	(101)	(87)	(96)
Tax payment	(15)	(25)	(81)	(122)	(178)
Operating Cash flow	190	175	143	302	453
Purchase of PP&E	(3)	(15)	(10)	(10)	(10)
Acquisition of subsidiary/ associate	(2)	0	(462)	0	0
Purchase of financial assets	(393)	(198)	0	0	0
Proceeds from disposal of financial assets	414	198	0	0	0
Others	(22)	9	10	9	12
Investing Cash flow	(6)	(6)	(462)	(1)	2
Interest received	5	0	0	0	0
Equity raised	0	597	0	0	0
Dividend to shareholders	(10)	(25)	(51)	(75)	(113)
Others	7	(28)	5	5	5
Financing Cash flow	2	553	(46)	(70)	(108)
Net cash inflow/ (outflow)	186	722	(365)	230	348
Cash- beginning	252	438	1,160	795	1,025
Cash- year-end	438	1,160	795	1,025	1,373

Source(s): The Company, ABCI Securities estimates

Disclosures

Analyst Certification

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate (10%)
Hold	- Market return (-10%) \leq Stock return < Market return rate (10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months
Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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