

# Ever Sunshine (1995 HK)

## Quality growth, quality management

- Acquisition of Qingdao Yayuan in June can boost earnings and margins
- Problematic governance in Xinchengyue may increase the appeal of ES, whose consistent performance is indicative of sound management. ES may become investors' favorite pick among small-mid property management companies (PMCs) as a result of flight to quality
- Maintain **BUY** with revised TP of HK\$ 4.70 based on DCF valuation with a WACC of 11%

**Acquisition of Qingdao Yayuan boosted earnings and margins.** In June 2019, Ever Sunshine (ES) announced to acquire a 55% stake in Qingdao Yayuan Property Management (青島雅園物業管理有限公司) at RMB 462mn, or ~14x 2019E PE. GFA under management of Qingdao Yayuan is ~1.85mn sqm currently (2018: 1.4mn sqm), with ~90% of GFA coming from non-residential projects. The majority of the projects are located in tier 1/2 cities such as Qingdao, Nanjing, Shanghai and Suzhou, etc. The remaining 45% stake is owned by the original major shareholder Sunny World Real Estate (新地集團), a commercial property developer. While the valuation can be slightly more expensive than the pricing at ~10x P/E for PMC's M&A deals, we think the transaction can be justified by:

**1) Good growth prospect:** In 2019, Qingdao Yayuan added a Grade A office project of 0.45mn sqm in Shanghai and its net profit is expected to grow from RMB 33.4mn in 2018 to RMB 60mn in 2019, up 80% YoY. We expect high-grade commercial projects in tier 1 regions are more able to command raises in management fee rate. **2) Margin enhancement:** We estimate the net margin of Qingdao Yayuan to be ~20%, much higher than ES's 11.7% core net margin in 2018. With a high mix of commercial projects, Qingdao Yayuna has an average fee rate of ~RMB10/sqm based on our estimate, as compared to RMB3.22/sqm (+22%YoY) and RMB1.83/sqm (+24%YoY) for CIF's projects and third-party projects managed by ES in 2018.

**Solid track record of parent group implies sound corporate governance of PMC subsidiary.** Recent management scandal surrounding Future Land (1030 HK) and Xinchengyue (XCY, 1755 HK) have placed corporate governance under the spotlight for listed developers and PMC subsidiaries. Departure of Future Land's chairman Mr Wang has resulted in possible disposal of property projects to mitigate potential refinancing pressure. As at 24 Jul 2019, Seazen Holdings, the A-share listed subsidiary of Future Land, agreed to transfer equity interests in 10 projects. The total consideration is RMB4.2 billion, which accounts for around 13.62% of Seazen Holdings' audited total attributable to the shareholders as at the end of 2018. With the project disposal, XCY's managed GFA growth could be affected in the future. In our view, the demise will prompt investors to turn vigilant on corporate governance in the near term.

### Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (RMB mn)	725	1,076	1,931	2,941	4,121
Chg (% YoY)	51.1	48.3	79.5	52.3	40.1
Core profit (RMB mn)	76	126	228	383	553
Chg (% YoY)	127.5	64.7	81.4	67.7	44.5
EPS (RMB)	0.07	0.11	0.15	0.25	0.36
Chg (% YoY)	127.5	59.8	36.3	67.7	44.5
BVPS (RMB)	0.22	0.59	0.70	0.90	1.18
Chg (% YoY)	45.8	167.8	19.8	27.8	31.4
P/E (x)	53.7	33.63	24.67	14.71	10.18
P/B (x)	16.8	6.27	5.23	4.09	3.12
ROE (%)	31.2	11.2	21.2	27.8	30.6
ROA (%)	10.9	6.7	13.3	17.9	20.4
DPS (HK\$)	-	0.02	0.04	0.06	0.09
Yield (%)	-	0.55	0.89	1.49	2.15
Net gearing (%)	Net Cash	Net Cash	Net cash	Net cash	Net cash

Source(s): The Company, ABCI Securities estimates

## Company report

July 25, 2019

Rating: **BUY**

TP: HK\$ 4.70

Analyst : Kenneth Tung

Tel: (852) 2147 8311

kennethtung@abci.com.hk

Share price (HK\$)	4.18
Est. share price return	12.4%
Est. dividend yield	0.9%
Est. total return	13.3%
Previous Rating & TP	2.70
Previous Report Date	31 Jan 2019

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	4.47/1.59
Issued shares (mn)	1,536
Market cap (HK\$ mn)	6,422
3-month avg daily turnover (HK\$ mn)	9.14
Major shareholder(s) (%)	
Lin's Family	68.8

Source(s): Bloomberg, ABCI Securities

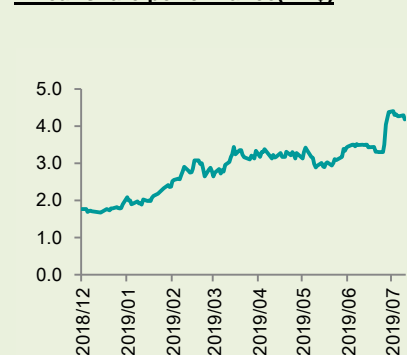
### Share Performance (%)

	Absolute	Relative*
1-mth	19.4	19.4
3-mth	32.5	37.3
6-mth	117.1	105.6

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### 1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Listed in 2012, ES's parent group CIFI has established track record in delivering: 1) consistent revenue growth of 13-46%YoY and core profit growth of 14-65%YoY during 2013-18 despite fluctuations in the property cycle; 2) healthy balance sheet with a net gearing of 50-67% during 2013-18; 3) a steady gross margin of 22.7%-27.1% during 2013-18, reflecting disciplined cost control in land acquisition. All these attributes are indicative of sound corporate governance. In comparison, XCY's parent group, Future Land, reported a 26% YoY profit decline during the down cycle in 2014, and overstretched its balance sheet to a net gearing of 100% in 2017 when the property market rebounded. Besides, both ES and XCY have high exposure in the YRD area, but we believe the former would have a better chance in securing third-party contracts with its solid governance record. We believe market would deem ES to have better corporate governance among the listed PMCs, given its parent's long history of good financial discipline. In our view, ES could become investors' favorite pick among the small/mid-cap PMCs as a result of the flight to quality.

**Maintain BUY with revised TP at HK\$4.70.** We factor in the acquisition of Qingdao Yayuan and raise our core profit forecast by 3% and 10% for 2019E and 2020E. We also lift our terminal growth assumption from 1% to 2.5% as ES is actively seeking M&A growth in addition to organic expansion. We raise our TP to HK\$4.70 (from HK\$2.70) based on DCF valuation with a WACC of 11%. **Maintain BUY.**

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

#### Exhibit 1: Operational and financial metrics of Qingdao Yayuan

<b>Managed GFA as at Dec 2018 (mn sqm)</b>	<b>1.40</b>
<b>New addition in 2019 (mn sqm)</b>	<b>0.45</b>
<b>Revenue (RMBmn)</b>	
-2017	168
-2018	200
<b>Net profit (RMBmn)</b>	
-2017	26
-2018	33
<b>Guaranteed Net profit (RMBmn)</b>	
-2019	60
-2020	70
-2021	73
-2022	76

Source(s): The Company, ABCI Securities

## Financial statements

### Consolidated income statement (2017A-2021E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
<b>Revenue</b>	<b>725</b>	<b>1,076</b>	<b>1,931</b>	<b>2,941</b>	<b>4,121</b>
Cost of services	(542)	(767)	(1,369)	(2,040)	(2,864)
<b>Gross Profit</b>	<b>183</b>	<b>309</b>	<b>562</b>	<b>901</b>	<b>1,257</b>
Administrative expenses	(88)	(166)	(255)	(362)	(493)
<b>EBIT</b>	<b>95</b>	<b>143</b>	<b>308</b>	<b>538</b>	<b>764</b>
Other income	10	16	5	5	5
Finance cost	-	(0)	-	-	-
Finance income	-	-	10	9	13
Share of results of associates	1	9	-	-	-
Exceptional items	-	(25)	-	-	-
Other expenses	(1)	(1)	-	-	-
<b>Profit before tax</b>	<b>105</b>	<b>142</b>	<b>322</b>	<b>553</b>	<b>782</b>
Tax	(28)	(42)	(81)	(138)	(195)
<b>Profit after tax</b>	<b>76</b>	<b>100</b>	<b>242</b>	<b>414</b>	<b>586</b>
Minority interest	-	0	(14)	(32)	(33)
<b>Net profit</b>	<b>76</b>	<b>101</b>	<b>228</b>	<b>383</b>	<b>553</b>
<b>Core profit*</b>	<b>76</b>	<b>126</b>	<b>228</b>	<b>383</b>	<b>553</b>
<b>Per share</b>					
EPS (RMB)	0.07	0.11	0.15	0.25	0.36
DPS (HK\$)	-	0.02	0.04	0.06	0.09
Payout ratio (%)	0%	21%	25%	25%	25%
BVPS (RMB)	0.22	0.59	0.70	0.90	1.18
<b>Growth %</b>					
Revenue	51.1%	48.3%	79.5%	52.3%	40.1%
Gross Profit	74.8%	68.9%	82.0%	60.2%	39.6%
EBIT	135.4%	50.7%	114.8%	75.0%	41.9%
Core profit	127.5%	64.7%	81.4%	67.7%	44.5%
<b>Margin %</b>					
Gross margin	25.2%	28.7%	29.1%	30.6%	30.5%
EBIT margin	13.1%	13.3%	15.9%	18.3%	18.5%
Core net margin	10.5%	11.7%	11.8%	13.0%	13.4%
<b>Revenue breakdown</b>					
Property management services	472	667	1,360	2,228	3,213
VAS to non-property owners	143	211	251	276	301
Community value added services	110	198	319	438	606
<b>Total</b>	<b>725</b>	<b>1,076</b>	<b>1,931</b>	<b>2,941</b>	<b>4,121</b>
<b>Key assumptions</b>					
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

Source(s): The Company, ABCI Securities estimates

\* Excluding listing expenses and other exceptional items

**Consolidated balance sheet (2017A-2021E)**

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
<b>Current assets</b>	<b>617</b>	<b>1,384</b>	<b>1,159</b>	<b>1,591</b>	<b>2,190</b>
Bank balances and cash	438	1,160	796	1,055	1,441
Pledged bank deposit	0	10	10	10	10
Trade receivables	121	162	301	475	688
Inventories	0	0	0	0	0
Income tax recoverable	2	0	0	0	0
Other current assets	55	51	51	51	51
<b>Non-current assets</b>	<b>85</b>	<b>109</b>	<b>564</b>	<b>544</b>	<b>526</b>
Property, plant and equipment	15	27	37	47	57
Intangible assets	0	0	214	184	156
Goodwill	17	17	248	248	248
Other non-current assets	53	65	65	65	65
<b>Total Assets</b>	<b>702</b>	<b>1,493</b>	<b>1,723</b>	<b>2,135</b>	<b>2,716</b>
<b>Current Liabilities</b>	<b>445</b>	<b>574</b>	<b>612</b>	<b>694</b>	<b>810</b>
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
<b>Non-current liabilities</b>	<b>12</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>16</b>
Deferred Tax Liabilities	12	16	16	16	16
<b>Total Liabilities</b>	<b>458</b>	<b>590</b>	<b>628</b>	<b>710</b>	<b>826</b>
<b>Net Assets</b>	<b>245</b>	<b>903</b>	<b>1,094</b>	<b>1,425</b>	<b>1,890</b>
Shareholders' Equity	245	899	1,077	1,376	1,808
Minority Interest	0	4	17	49	82
<b>Total Equity</b>	<b>245</b>	<b>903</b>	<b>1,094</b>	<b>1,425</b>	<b>1,890</b>
<b>Key ratio</b>					
Gross debt (RMB mn)	-	9	9	9	9
Net debt/ (cash) (RMB mn)	(438)	(1,151)	(787)	(1,045)	(1,431)
Net gearing (%)	-150%	-179%	-72%	-73%	-76%

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	568	792
Change in Working Capital	108	55	(101)	(92)	(97)
Tax payment	(15)	(25)	(81)	(138)	(195)
<b>Operating Cash flow</b>	<b>190</b>	<b>175</b>	<b>143</b>	<b>338</b>	<b>500</b>
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	13
<b>Investing Cash flow</b>	<b>(6)</b>	<b>(6)</b>	<b>(462)</b>	<b>(1)</b>	<b>3</b>
Interest received	5	0	0	0	0
Equity raised	0	597	0	0	0
Dividend to shareholders	(10)	(25)	(50)	(84)	(121)
Others	7	(28)	5	5	5
<b>Financing Cash flow</b>	<b>2</b>	<b>553</b>	<b>(45)</b>	<b>(79)</b>	<b>(116)</b>
Net cash inflow/ (outflow)	186	722	(364)	259	386
<b>Cash- beginning</b>	<b>252</b>	<b>438</b>	<b>1,160</b>	<b>796</b>	<b>1,055</b>
<b>Cash- year-end</b>	<b>438</b>	<b>1,160</b>	<b>796</b>	<b>1,055</b>	<b>1,441</b>

Source(s): The Company, ABCI Securities estimates

## Disclosures

### Analyst Certification

I, Tung Yiu Kei Kenneth, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

### Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

### 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 2005 (HSI total return index 2005-17 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.

### Disclaimers

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report would not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients would contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2019 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183