

Ever Sunshine (1995 HK) Impressive FY19 results

- FY19 net profit attributable to shareholders rose 123% YoY to RMB 224mn
- Revenue from CVAS soared 144% YoY to RMB 483mn
- Management targets to achieve a contracted GFA of ~180mn sqm by end-2020
- Maintain **BUY** with revised TP of HK\$11.20 based on DCF valuation

Impressive FY19 results. Ever Sunshine (ES)'s FY19 net profit attributable to shareholders rose 123% YoY to RMB 224mn, while core profit (excluding listing and other expenses) rose 79%YoY to RMB 226mn, largely in line with our forecasts. Revenue jumped 75%YoY to RMB 1,878mn because revenue from property management services (PMS), VAS to non-property owner (VASNPO) and Community VAS (CVAS) grew 61% YoY, 54% YoY, and 144% YoY, respectively. Driven by third-party projects, GFA under management and contracted GFA jumped 62%YoY and 69%YoY to 65mn sqm and 111mn sqm. In particular, the bidding success rate for small-mid third-party developer remained stable at 40%. Average management fee from projects developed by third-party developers soared 62% YoY to RMB 2.96/sqm, following the acquisition of Qingdao Yayuan's quality office projects. Revenue from CVAS now accounts for 25.7% of total revenue, as the Group's house decoration business achieved a substantial growth in 2019. While management expects an upsurge in upgrading demand from old residential communities, house decoration normally entails a lower gross margin of ~20% only. As a result, GPM of CVAS dropped 12.2ppt YoY to 51.2% in 2019.

Quality services gain recognition. Five of ES's projects in Wuhan were recognized by government as zero infection residential communities regarding COVID-19 over the last two months; it is regarded by media as a role model in the PM sector. As a result of the virus outbreak, ES is likely to maintain a high bidding success rate due to the rising hygienic and service standard. By end-2020, management targets to achieve a contracted GFA of ~180mn sqm and a YoY profit growth of 60% for the next few years.

Maintain BUY with revised TP of HK\$ 11.20. We raise our 2020E and 2021E core profit forecasts by 13.9% and 9.4% on better-than-expected CVAS outlook. Our DCF-based TP is raised to HK\$ 11.20 (from HK\$ 9.70). We are impressed by ES's ability in acquiring third-party projects and impressive growth in CVAS business. Maintain **BUY**.

Risk factors: 1) Possible margin dilution due to increasing third-party projects; 2) Declining margin in CVAS business; 3) Uncertain development of COVID-19

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	1,076	1,878	3,008	4,165	5,385
Chg (% YoY)	48.3	74.5	60.2	38.5	29.3
Core profit (RMB mn)*	126	226	383	548	703
Chg (% YoY)	64.7	79.3	69.5	43.2	28.3
EPS (RMB)	0.11	0.15	0.25	0.36	0.46
Chg (% YoY)	59.8	34.8	69.5	43.2	28.3
BVPS (RMB)	0.59	0.75	0.93	1.19	1.52
Chg (% YoY)	167.8	27.7	24.1	27.8	27.9
P/E (x)	71.6	53.1	31.4	21.9	17.1
P/B (x)	13.3	10.4	8.4	6.6	5.1
ROE (%)	11.2	19.5	26.9	30.1	30.2
ROA (%)	6.7	9.0	14.2	16.9	17.9
DPS (HK\$)	0.02	0.05	0.08	0.11	0.14
Yield (%)	0.3	0.6	0.9	1.3	1.6
Net gearing (%)	Net Cash	Net Cash	Net cash	Net cash	Net cash

Note: RMB /HKD: 1.09

* Core net profit = profit attributable to owners of the company – listing and other expenses, net of tax

Source(s): The Company, ABCI Securities estimates

Company report

Mar 25, 2020

Rating: **BUY**

TP: **HK\$ 11.20**

Analyst : **Kenneth Tung**

Tel: **(852) 2147 8311**

kennethtung@abci.com.hk

Share price (HK\$)	8.51
Est. share price return	31.6%
Est. dividend yield	0.9%
Est. total return	32.5%
Previous Rating & TP	BUY: 9.70
Previous Report Date	6 Mar 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	8.65/2.84
Issued shares (mn)	1,536
Market cap (HK\$ mn)	12,426
3-month avg daily turnover (HK\$ mn)	63.15
Major shareholder(s) (%)	
Lin's Family	68.8

Source(s): Bloomberg, ABCI Securities

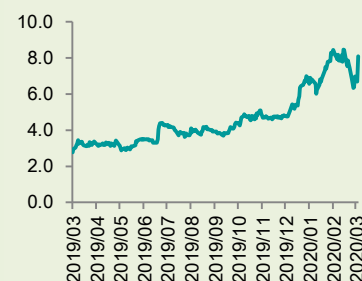
Share Performance (%)

	Absolute	Relative*
1-mth	4.4	19.7
3-mth	78.4	112.5
6-mth	122.3	146.5

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Exhibit 1: ES's 2019 financial performance

P&L				Balance sheet			
	2019	2018	YoY Chg		Dec-19	Dec-18	YoY %
	RMB mn	RMB mn	(%)		RMBmn	RMBmn	
Revenue	1,878	1,076	74.5	Gross debt	-	9	(100)
Cost of Sales	(1,322)	(767)	72.5	Cash	1,327	1,170	13
Gross Profit	555	309	79.7	Net Cash	1,327	1,161	14
Gross Margin (%)	29.6	28.7	0.9ppt				
Selling and distribution costs	0	0	na				
Administrative expense	(247)	(162)	52.4				
EBIT	309	147	109.8				
EBIT Margin (%)	16.4	13.7	2.8 ppt				
Other income	48	16	200.1				
Share of associates	0	9	(104.7)				
Other expenses	(3)	(1)	187.7				
Listing expenses and others	0	(25)	(100.0)				
Expected credit loss on financial	(24)	(4)	490.1				
Finance cost	(1)	(0)	1,261.2				
Profit before tax	329	142	131.7				
Tax	(80)	(42)	91.5				
Profit after tax	249	100	148.4				
Minority Interest	(25)	0	n.m.				
Net profit	224	101	122.7				
Core net profit	226	126	79.3				
Core net margin	12.0	11.7	0.3ppt				
				Operating statistics			
	2019	2018	YoY %				
GFA Under management (mn sqm)	65.2	40.2	61.9				
Contracted GFA (mn sqm)	110.6	65.6	68.5				
Average management fee (RMB/sqm/mth)							
- CIFI projects	3.46	3.22	7.5				
- Third-party projects	2.96	1.83	61.7				

Source(s): The Company, ABCI Securities

Exhibit 2: Changes in TP and profit forecasts

	New	Old	Change	Reason
TP (HK\$)	11.20	9.7	15.5%	Better-than-expected CVAS revenue growth and GFA guidance
Core profit (RMB mn)				
- 2020E	383	336	13.9%	Better-than-expected CVAS revenue growth and GFA guidance
- 2021E	548	501	9.4%	Better-than-expected CVAS revenue growth and GFA guidance

Source(s): Company, ABCI Securities estimates

Financial statements

Consolidated income statement (2018A-2021E)

FY Ended Dec 31 (RMB mn)	2018A	2019	2020E	2021E	2022E
Revenue	1,076	1,878	3,008	4,165	5,385
Cost of services	(767)	(1,322)	(2,111)	(2,914)	(3,742)
Gross Profit	309	555	897	1,251	1,643
Administrative expenses	(162)	(247)	(364)	(498)	(687)
EBIT	147	309	533	753	956
Other income	16	48	5	5	5
Finance cost	(0)	(1)	-	-	-
Finance income	-	-	14	16	20
Share of results of associates	9	(0)	-	-	-
Expected credit loss on financial assets	(4)	(24)	-	-	-
Exceptional items	(25)	-	-	-	-
Other expenses	(1)	(3)	-	-	-
Profit before tax	142	329	552	774	981
Tax	(42)	(80)	(138)	(194)	(245)
Profit after tax	100	249	414	581	736
Minority interest	0	(25)	(32)	(33)	(33)
Net profit	101	224	383	548	703
Core profit*	126	226	383	548	703
Per share					
Reported EPS (RMB)	0.09	0.15	0.25	0.36	0.46
Core EPS (RMB)	0.11	0.15	0.25	0.36	0.46
DPS (HK\$)	0.02	0.05	0.08	0.11	0.14
Payout ratio (%)	21%	33%	30%	30%	30%
BVPS (RMB)	0.59	0.75	0.93	1.19	1.52
Growth %					
Revenue	48.3%	74.5%	60.2%	38.5%	29.3%
Gross Profit	68.9%	79.7%	61.5%	39.5%	31.3%
EBIT	55.0%	109.8%	72.7%	41.3%	26.9%
Core profit	64.7%	79.3%	69.5%	43.2%	28.3%
Margin %					
Gross margin	28.7%	29.6%	29.8%	30.0%	30.5%
EBIT margin	13.7%	16.4%	17.7%	18.1%	17.8%
Core net margin	11.7%	12.0%	12.7%	13.2%	13.1%
Revenue breakdown					
Property management services	667	1,070	1,796	2,539	3,229
VAS to non-property owners	211	325	382	449	541
Community value added services	198	483	829	1,177	1,615
Total	1,076	1,878	3,008	4,165	5,385
Key assumptions					
Contracted GFA (mn sqm)	65.6	110.6	175.8	225.5	281.2
GFA under management (mn sqm)	40.2	65.2	104.2	134.1	167.5

* Excluding listing and other expenses

Source(s): The Company, ABCI Securities estimates

Consolidated balance sheet (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	1,384	1,808	2,043	2,599	3,291
Bank balances and cash	1,160	1,284	1,375	1,721	2,180
Pledged bank deposit	10	43	43	43	43
Trade receivables	162	342	486	696	929
Inventories	0	0	0	0	0
Income tax recoverable	0	0	0	0	0
Other current assets	51	139	139	139	139
Non-current assets	109	670	657	645	635
Property, plant and equipment	27	62	72	82	92
Intangible assets	0	101	77	56	36
Goodwill	17	431	431	431	431
Other non-current assets	65	76	76	76	76
Total Assets	1,493	2,478	2,700	3,244	3,926
Current Liabilities	574	1,187	1,101	1,216	1,356
Accruals and other payables	287	490	490	490	490
Contract liabilities	171	342	342	342	342
Trade payables	72	285	198	313	454
Other current liabilities	44	70	70	70	70
Non-current liabilities	16	63	63	63	63
Deferred Tax Liabilities	16	49	49	49	49
Total Liabilities	590	1,250	1,164	1,279	1,419
Net Assets	903	1,228	1,536	1,965	2,507
Shareholders' Equity	899	1,148	1,425	1,821	2,329
Minority Interest	4	80	112	144	177
Total Equity	903	1,228	1,536	1,965	2,507
Key ratio					
Gross debt (RMB mn)	9	-	-	-	-
Net debt/ (cash) (RMB mn)	(1,161)	(1,327)	(1,418)	(1,764)	(2,223)
Net gearing (%)	-129%	-108%	-92%	-90%	-89%

Source(s): The Company, ABCI Securities estimates



Consolidated cash flow statement (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019E	2020E	2021E	2022E
EBITDA	149	321	557	775	976
Change in Working Capital	51	33	(230)	(94)	(93)
Tax payment	(25)	(80)	(138)	(194)	(245)
Operating Cash flow	175	274	189	487	638
Purchase of PP&E	(15)	(10)	(10)	(10)	(10)
Acquisition of subsidiary/ associate	-	(462)	-	-	-
Purchase of financial assets	(198)	-	-	-	-
Proceeds from disposal of financial assets	198	-	-	-	-
Others	9	-	14	16	20
Investing Cash flow	(6)	(472)	4	6	10
Interest received	-	-	-	-	-
Equity raised	597	-	-	-	-
Dividend to shareholders	(25)	(62)	(106)	(152)	(194)
Others	(28)	385	5	5	5
Financing Cash flow	553	322	(101)	(147)	(189)
Net cash inflow/ (outflow)	722	124	91	346	458
Cash- beginning	438	1,160	1,284	1,375	1,721
Cash- year-end	1,160	1,284	1,375	1,721	2,180

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 may pursue financial interests to 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 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.

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 2020 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