

S-Enjoy Service Group (1755 HK)

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Company Update

BUY
UNCHANGED
Close price: HK\$19.90

Target Price: HK\$26.90 (+35%)

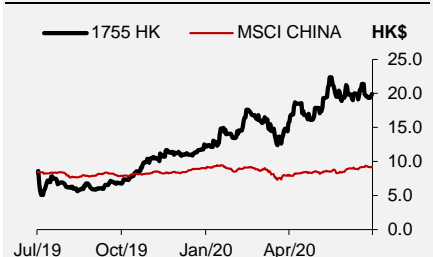
Prior TP: HK\$26.90

Key Data

HKEx code	1755 HK
12 Months High (HK\$)	22.24
12 Month Low (HK\$)	4.97
3M Avg Dail Vol. (mn)	2.32
Issue Share (mn)	818.10
Market Cap (HK\$m)	16,280.19
Fiscal Year	31/12/2019
Major shareholder (s)	Wang Zhenhua (73.34%)

Source: Company data, Bloomberg, OP Research
 Closing price are as of 30/06/2020

Price Chart



	1mth	3mth	6mth
Absolute %	-2.5	19.2	60.7
Rel. MSCI CHINA %	-8.3	4.0	60.4

PE



Company Profile

Founded in 1996 in Jiangsu, S-Enjoy Service Group Co., Limited is ranked as 2019TOP11 property management services company by CIA, and also 2019TOP5/7/10 in Shanghai/Wuxi/Hangzhou respectively. It has 60.2mn sq. m GFA under management (GFAum) by FY19, 71% of which comes from sister company Seazen Group.

New share incentives with strong commitment

- The company granted 0.36%/0.61% of total shares on Jun. 30th, 2020 to employees with exercise price/grant price at HK\$19.90/HK\$9.95.
- New share incentives set bullish attributable net profit growth targets that imply 49% CAGR FY19-22E as vesting requirement, showing strong management commitment.
- Reiterate BUY with TP unchanged at HK\$26.90 on the same 47x/32x PE FY20E/FY21E adj. EPS.

New share option grants and share awards to employees and directors. On Jun. 30th, 2020, S-Enjoy granted 2.96 mn share options (0.36%) at exercise price of HK\$19.90 and 5 mn award shares (0.61%) with grant price of HK\$9.95 to 10 employees (does not include any directors, chief executives or substantial shareholders) and 14 share award grantees (incl. 3 directors) respectively. These are in addition to the 16 mn share options granted in FY19.

Bullish attributable net profit growth goals set for share incentives. Attributable net earnings targets for FY20E/FY21E/FY22E are RMB395 mn/ RMB620 mn/ RMB931 mn, or up 40%/57%/50% yoy, for 30%/30%/40% of both new share options and share awards to be vested in mid of FY21E/FY22E/FY23E respectively. The bullish targets imply attributable earnings CAGR of 49% FY19-22E, generally in line with our forecasts. We believe this shows strong commitment from the management for upbeat future performance, supported by clear vision of robust GFAum (GFA under management) growth at 49% CAGR FY19-22E, exponential growth of high-margined community VAS, and upward-going project profitability thanks to new project ramp-up.

Reiterate BUY with TP unchanged at HK\$26.90 on the same 47x/32x PE FY20E/FY21E adj. EPS, as we see reinforced commitment from the management for robust outlook. The stock is currently trading at 24x PE FY21E, at 20% discount of peers.

Risks: 1) abrupt slowdown of Seazen Group expansion; 2) unexpected salary inflation acceleration; 3) unsuccessful diversification of community VAS

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY18R	FY19	FY20E	FY21E	FY22E
Revenue	1,173.4	2,024.0	2,917.6	4,048.2	5,423.7
Growth (%)	2.0	76.0	44.1	38.8	34.0
Adj. net profit	175.5	271.2	417.9	610.7	864.3
Growth (%)	105.0	54.5	54.1	46.1	41.5
Diluted adj. EPS (HK\$)	0.314	0.373	0.576	0.841	1.190
EPS growth (%)	1.0	20.3	54.1	46.1	41.5
Change to previous EPS (%)			0.0	0.0	0.0
Consensus EPS (HK\$)			0.579	0.831	1.140
ROA (%)	39.6	59.5	37.5	41.8	45.3
P/E (x)	63.4	53.3	34.6	23.7	16.7
P/B (x)	13.0	15.6	11.5	8.9	6.7
Yield (%)	0.6	1.0	1.6	2.3	3.3
DPS (HK\$)	0.113	0.203	0.313	0.458	0.648

Source: Bloomberg, OP Research

Exhibit 2: Share option/share award schemes summary

	Adopted/ granted date	Max. shares	Duration	No. of shares granted/awarded	% of total	Exercise/ grant price	Vesting conditions
Share Option Scheme	2018-Oct-20	800mn	6 years				
Granted shares	2019-Sep-02			3.50 mn to 3 directors* 12.5 mn to 29 employees	1.95%	HK\$6.18	40%/30%/30% to be vested if annual individual performance reaches grade "pass" upon 12/24/36 months from 2019-Sep-02
Granted shares	2020-Jun-30			2.96 mn to 10 employees	0.36%	HK\$19.90	30%/30%/40% to be vested if attributable net earnings for FY20E/FY21E/FY22E grow 40%/120%/230% from FY19.
	Adopted/ granted date	Max. shares	Duration	No. of shares granted/awarded	% of total	Exercise/ grant price	Vesting conditions
Share Award Scheme	2019-Nov-15	10.23mn[^]	10 years				
Awarded shares	2020-Jun-30			1.37 mn to 3 directors* 3.63 mn to 11 employees	0.61%	HK\$9.95	30%/30%/40% to be vested if attributable net earnings for FY20E/FY21E/FY22E grow 40%/120%/230% from FY19.

*3 directors are Mr. Qi Xiaoming, Ms. Wu Qianqian, and Mr. Lan Ziyong

[^]1.25% of total issued share capital at the adoption date

Source: Company, OP Research

Financial Summary

Year to Dec	FY18R	FY19	FY20E	FY21E	FY22E	Year to Dec	FY18R	FY19	FY20E	FY21E	FY22E
Income Statement (RMB mn)						Ratios					
Property management services	732	849	1,433	2,159	2,962	Gross margin (%)	29.4	29.6	30.4	31.4	32.4
Property developer-related	297	648	713	784	862	Operating margin (%)	18.7	19.1	19.0	20.2	21.4
Community-related services	48	176	315	518	843	Net margin (%)	13.0	13.9	14.0	14.8	15.7
Professional services	97	351	457	588	757	Selling & dist'n exp/Sales (%)	0.6	0.6	0.6	0.6	0.6
Turnover	1,173	2,024	2,918	4,048	5,424	Admin exp/Sales (%)	12.6	11.6	11.2	10.9	10.6
YoY%	2	76	44	39	34	Payout ratio (%)	36.0	54.5	54.5	54.5	54.5
COGS	(828)	(1,424)	(2,031)	(2,775)	(3,665)	Effective tax (%)	22.7	23.0	22.5	22.5	22.5
Gross profit	345	600	886	1,273	1,759	Total debt/equity (%)	0.0	0.4	0.3	0.2	0.2
Gross margin	29.4%	29.6%	30.4%	31.4%	32.4%	Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Other income	30	32	11	11	11	Current ratio (x)	2.2	1.7	1.7	1.7	1.7
Selling & distribution	(7)	(11)	(16)	(23)	(30)	Quick ratio (x)	2.2	1.7	1.7	1.6	1.7
Admin	(148)	(234)	(326)	(443)	(576)	Inventory T/O (days)	5	3	3	3	3
R&D	0	0	0	0	0	AR T/O (days)	40	47	32	32	32
Other opex	(0)	(1)	(1)	(2)	(2)	AP T/O (days)	184	198	170	170	170
Total opex	(155)	(246)	(343)	(467)	(609)	Cash conversion cycle (days)	(138)	(148)	(135)	(135)	(135)
Operating profit (EBIT)	220	386	553	816	1,161	Asset turnover (x)	1.2	1.7	1.1	1.2	1.2
Operating margin	18.7%	19.1%	19.0%	20.2%	21.4%	Financial leverage (x)	2.6	2.5	2.4	2.4	2.5
Provisions	(12)	(10)	(10)	(10)	(10)	EBIT margin (%)	18.7	19.1	19.0	20.2	21.4
Interest Income	6	17	20	19	20	Interest burden (x)	1.0	1.0	1.0	1.0	1.0
Finance costs	0	(0)	(0)	(0)	(0)	Tax burden (x)	0.7	0.7	0.7	0.7	0.7
Profit after financing costs	213	392	563	825	1,171	Return on equity (%)	39.6	59.5	37.5	41.8	45.3
Associated companies & JVs	0	0	0	0	0	ROIC (%)	(50.4)	(85.8)	(84.5)	(72.5)	(65.3)
Pre-tax profit	213	392	563	825	1,171	Year to Dec	FY18R	FY19	FY20E	FY21E	FY22E
Tax	(48)	(90)	(127)	(186)	(263)	Balance Sheet (RMB mn)					
Minority interests	(13)	(20)	(28)	(39)	(53)	Fixed assets	8	9	14	21	31
Net profit	152	282	408	600	854	Intangible assets & goodwill	14	83	82	82	82
YoY%	107	85	45	47	42	Associated companies & JVs	0	0	0	0	0
Net margin	13.0%	13.9%	14.0%	14.8%	15.7%	Right-of-use assets	0	11	11	11	11
Adj. net profit*	175	271	418	611	864	Long-term investments	8	4	109	109	109
YoY%	105	55	54	46	42	Other non-current assets	24	40	40	40	40
Adj. net margin	15.0%	13.4%	14.3%	15.1%	15.9%	Non-current assets	55	148	256	263	273
EBITDA	223	395	556	818	1,162	Inventories	12	11	15	21	27
EBITDA margin	19.0%	19.5%	19.1%	20.2%	21.4%	AR	129	263	256	355	476
Adj. EPS (RMB)	0.278	0.330	0.510	0.744	1.053	Prepayments & deposits	95	100	145	201	269
YoY%	1	20	54	46	42	Other current assets	0	339	339	339	339
DPS (HK\$)	0.113	0.203	0.314	0.458	0.648	Cash	1,281	1,339	1,967	2,835	3,962
Year to Dec	FY18R	FY19	FY20E	FY21E	FY22E	Current assets	1,518	2,052	2,722	3,750	5,073
Cash Flow (RMB mn)						AP	417	774	946	1,293	1,707
EBITDA	223	395	556	818	1,162	Tax	23	47	127	186	263
Chg in working cap	15	219	303	404	484	Accruals & other payables	249	390	563	781	1,046
Others	(12)	4	(10)	(10)	(10)	Bank loans & leases	0	4	4	4	4
Operating cash	226	618	849	1,211	1,636	CB & othe debts	0	0	0	0	0
Interest received	0	0	(0)	(0)	(0)	Other current liabilities	0	0	0	0	0
Tax	(40)	(74)	(47)	(127)	(186)	Current liabilities	689	1,215	1,639	2,263	3,020
Net cash from operations	186	545	801	1,085	1,450	Bank loans & leases	0	0	0	0	0
Capex	(2)	(4)	(6)	(9)	(12)	CB & othe debts	0	0	0	0	0
Investments	(2)	(275)	(105)	0	0	Lease liabilities	0	4	4	4	4
Dividends received	0	0	0	0	0	Deferred tax & others	6	14	14	14	14
Sales of assets	8	0	0	0	0	MI	23	43	71	110	163
Interests paid	5	15	20	19	20	Non-current liabilities	28	60	89	128	181
Others	0	0	0	0	0	Total net assets	855	924	1,250	1,623	2,146
Investing cash	9	(264)	(91)	11	9	Shareholder's equity	855	924	1,250	1,623	2,146
FCF	195	281	710	1,095	1,459	Share capital	57	57	57	57	57
Issue of shares	538	0	0	0	0	Reserves	798	868	1,194	1,567	2,089
Buy-back	0	(112)	0	0	0	BVPS (HK\$)	1.53	1.28	1.73	2.24	2.96
Minority interests	359	0	0	0	0	Total debts	0	4	4	4	4
Dividends paid	(78)	(82)	(82)	(227)	(332)	Net cash/(debts)	1,281	1,335	1,963	2,831	3,959
Net change in bank loans	(66)	0	0	0	0						
Others	(323)	(31)	0	0	0						
Financing cash	430	(225)	(82)	(227)	(332)						
Net change in cash	625	56	628	868	1,127						
Exchange rate or other Adj	19	2	0	0	0						
Opening cash	638	1,281	1,339	1,967	2,835						
Closing cash	1,281	1,339	1,967	2,835	3,962						
CFOS (HK\$)	0.332	0.750	1.104	1.494	1.997						

*excl. FV gains of financial assets, FX gains, receivable provisions
 Source: Company, OP Research

Exhibit 3: Peer Group Comparison

Company	Ticker	Mkt cap Price(US\$m)	3-mth avg t/o (US\$m)	PER			EPS			Div yld			EV/		Net gearing	Gross margin	Net margin	ROE		Sh px	Sh px			
				Hist	FY1	FY2	FY1	FY2	3-Yr	PEG	Hist	FY1	P/B	P/B				Ebitda	Ebitda			FY1	1-mth	3-mth
S-Enjoy Service	1755 HK	19.90	2,101	5.6	53.3	34.6	23.7	54.1	46.1	39.4	0.88	1.0	1.6	15.59	11.52	37.8	25.7	Net cash	29.6	13.9	59.5	37.5	(1.5)	26.6
HSI		24,427.19			10.7	11.4	9.7	(6.7)	18.1	7.3	1.57	3.9	3.5	0.98	0.96						9.2	8.4	2.9	5.8
HSCEI		9,758.63			8.1	8.5	7.6	(4.8)	12.5	6.1	1.39	4.0	3.9	1.02	0.96						12.6	11.3	(0.8)	3.8
CSI300		4,247.78			16.3	13.9	12.0	17.0	15.5	14.8	0.9	2.0	2.2	1.9	1.8						11.8	12.7	7.0	15.6
China Property Management Peers																								
Adjusted sector avg*					54.7	33.7	25.3	30.6	32.1	30.4	1.1	0.5	0.8	9.4	7.5	27.1	22.1	0.0	25.7	9.9	22.3	22.4	8.5	22.5
Adjusted sector avg*					50.6	30.9	23.3	(5.5)	126.2	30.3	1.1	0.7	1.9	8.6	4.5	28.1	17.8	0.0	25.7	9.9	22.3	19.4	(4.6)	12.6
Country Garden S	6098 HK	36.00	12,790	33.9	52.3	40.2	29.6	(34.6)	170.5	33.2	1.2	0.5	N/A	16.6	N/A	39.9	N/A	0.0	31.6	17.3	43.8	N/A	(3.4)	13.4
A-Living Servi-H	3319 HK	39.05	6,718	23.3	38.7	27.5	21.2	(43.5)	222.5	32.0	0.9	1.3	N/A	7.7	N/A	26.4	N/A	0.0	36.7	24.0	21.2	N/A	(10.4)	6.8
Poly Property -H	6049 HK	78.00	5,569	21.5	58.8	52.6	38.1	(23.1)	100.6	28.4	1.9	0.4	N/A	7.5	N/A	47.1	N/A	0.0	20.3	8.2	17.2	N/A	(12.2)	15.2
Greentown Servic	2869 HK	9.13	3,789	13.6	49.0	38.2	29.2	(52.9)	256.3	28.8	1.3	0.8	N/A	8.4	N/A	29.3	N/A	0.0	18.0	5.6	18.8	N/A	(13.2)	(3.2)
China Overseas P	2669 HK	8.20	3,477	16.4	50.1	39.0	30.6	(26.7)	123.3	27.2	1.4	0.6	N/A	17.8	N/A	31.9	N/A	0.0	20.0	9.8	40.8	N/A	(6.5)	13.4
Ever Sunshine Li	1995 HK	11.98	2,582	16.2	74.9	46.3	30.3	61.9	53.0	53.3	0.9	0.4	0.6	14.6	11.1	47.7	33.5	0.0	29.6	11.9	21.9	24.5	(5.5)	28.7
Kaisa Prosperity	2168 HK	31.75	631	5.3	24.7	17.7	12.7	39.7	39.4	39.6	0.4	1.6	2.1	6.1	5.0	17.2	11.8	0.0	30.0	13.0	28.0	31.0	(6.4)	22.5
Colour Life Serv	1778 HK	3.70	679	2.0	9.2	8.3	7.6	11.0	9.9	8.4	1.0	2.7	3.1	1.2	1.1	5.2	5.5	15.8	35.3	13.0	14.2	13.3	5.7	16.4
Shenzhen World-A	002285 CH	2.89	833	7.7	72.3	9.8	10.3	92.5	263.6	N/A	N/A	0.2	N/A	1.1	1.0	15.2	21.3	0.0	12.7	1.2	(1.1)	11.3	5.5	0.3
Commercial Property Management Peers																								
Adjusted sector avg*					14.4	23.7	16.3	(86.7)	837.6	(37.7)	3.5	0.4	n.a.	4.5	1.8	(14.9)	87.0	78.6	29.9	0.3	(4.0)	10.8	5.1	21.6
Cbre Group Inc-A	CBRE US	45.22	15,156	106.1	11.8	15.7	12.9	(87.9)	661.7	2.1	7.6	N/A	N/A	2.5	2.5	10.0	59.9	47.8	21.8	5.4	23.0	13.7	2.4	26.5
Jones Lang Lasal	JLL US	103.46	5,342	44.7	9.4	12.9	9.3	(88.4)	777.7	6.2	2.1	0.4	0.0	1.1	1.0	8.1	60.1	44.8	N/A	3.0	11.9	7.8	1.0	9.6
Firstservice-Wi	FSV CN	136.75	4,509	9.4	N/A	47.5	31.3	N/A	857.4	(183.8)	N/A	0.6	N/A	9.9	N/A	(86.9)	125.5	131.1	32.1	(10.5)	(74.7)	N/A	7.1	31.2
Colliers Interna	CIGI CN	77.90	2,291	10.6	22.1	18.5	11.8	(83.8)	1,053.6	24.5	0.8	0.2	N/A	4.6	N/A	9.2	102.3	90.8	35.7	3.4	23.7	N/A	9.9	19.2

* Outliners and "N/A" entries are in red and excl. from the calculation of averages

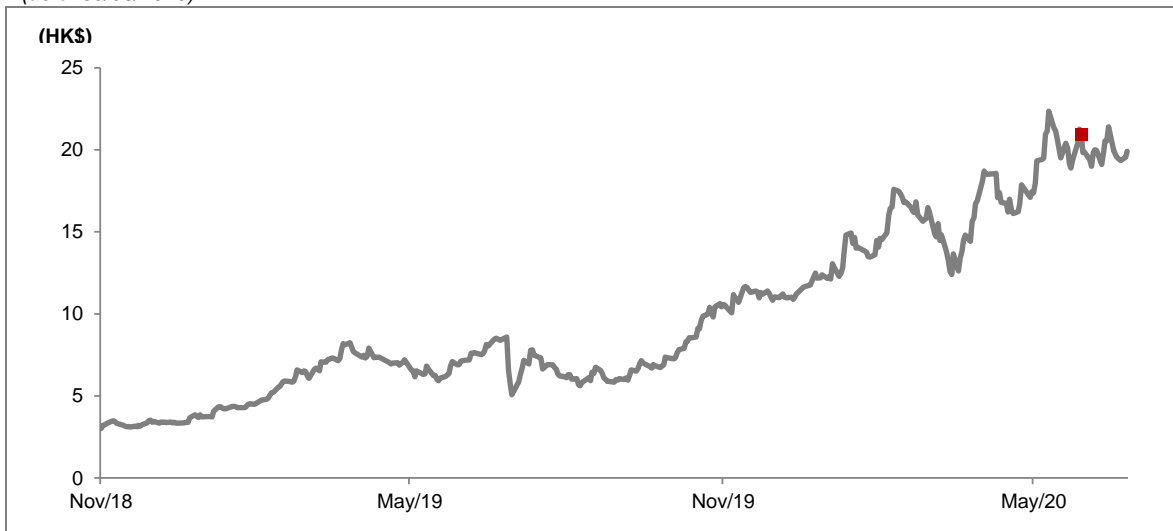
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
30/06/2020	Yeahka	9923	From payment to Fintech	BUY	Kevin Tam
19/06/2020	Powerlong CM	9909	Moving into the fast lane	NR	Dallas Cai
11/06/2020	Xtep Intl	1368	More promising prospect from FY21E	BUY	Megan Jin
08/06/2020	Edvantage Group	382	Campus capacity enlarged further	BUY	Megan Jin
04/06/2020	S-Enjoy Service	1755	Robust expansion continues	BUY	Megan Jin
04/06/2020	Greentown Services	2869	Placing for new growth initiatives - city services most likely	HOLD	Dallas Cai
28/05/2020	A-Living	3319	Positive read-across from April property sales	BUY	Dallas Cai
25/05/2020	HKBN	1310	Challenging to becoming BN leader	NR	Kevin Tam
18/05/2020	Skyworth	751	The sky getting clear	NR	Kevin Tam
14/05/2020	Ausuntria Dairy	1717	Premium products brought up GPM in 1Q20	BUY	Megan Jin/Dallas Cai
14/05/2020	China Youzan	8083	1Q loss narrowed as economies of scale kicking in	BUY	Dallas Cai
05/05/2020	HKTV	1137	HK based ecommerce on the rise	BUY	Kevin Tam/Megan Jin
23/04/2020	Edvantage Group	382	License fee saving may come earlier	BUY	Megan Jin/Dallas Cai
22/04/2020	361 Degrees Intl	1361	1Q20 retail sales in line	BUY	Megan Jin
21/04/2020	Xtep Intl	1368	1Q20 sales performance better than feared	BUY	Megan Jin/Dallas Cai
20/04/2020	Li-Ning	2331	1Q20 delivered satisfactory retail sales	BUY	Megan Jin/Dallas Cai
16/04/2020	Anta Sports	2020	Robust online FILA sales to drive 1Q20 sales beat	BUY	Dallas Cai/Megan Jin
15/04/2020	China Youzan	8083	FY19 GMV saw growth acceleration	BUY	Dallas Cai
02/04/2020	Greentown Services	2869	FY19 results largely in line	HOLD	Dallas Cai
31/03/2020	TCL Electronics	1070	FY19 results up to expectations	BUY	Dallas Cai
30/03/2020	Li-Ning	2331	A head start in FY20E with resilient operation	BUY	Dallas Cai/Megan Jin
27/03/2020	CH Display OPT	334	Lower order visibility ahead in FY20E	HOLD	Dallas Cai
27/03/2020	ChinaSoft Int'l	354	Cloud business ready to accelerate in FY20E	BUY	Dallas Cai
25/03/2020	Anta Sports	2020	FY20E strive for positive growth	BUY	Dallas Cai/Megan Jin
25/03/2020	China Overseas PPT	2669	FY19 results up to expectations	HOLD	Dallas Cai
23/03/2020	CG Services	6098	FY19 saw solid set of results	BUY	Dallas Cai
20/03/2020	Kingdee Int'l	268	Ambitious cloud target to weigh on FY20E earnings	HOLD	Dallas Cai

Historical recommendations and target price: S-Enjoy Service Group (1755 HK)

(as of 30/06/2020)



Date	Rating	TP (HK\$)	Close (HK\$)	Date	Rating	TP (HK\$)	Close (HK\$)
1 04 Jun 2020	BUY	26.90	20.90				
2							
3							
4							
5							

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