

A-Living (3319 HK)

Strong parent, acquisition-savvy, bargain price- it's a top BUY

- A-Living's FY19 net profit attributable to shareholders soared 53.6% YoY to RMB 1,231mn
- M&A expanded GFA under management by 66.8mn sqm in 2019, accounting for 70% of total GFA addition
- Negative impacts of COVID-19 will be offset by supportive policies such as reduced social insurance payment and management fee subsidies
- Maintain **BUY** with revised SOTP-based TP of HK\$ 51.40 (from HK\$ 50.60)

Solid results. A-Living's FY19 net profit attributable to shareholders soared 53.6% YoY to RMB 1,231mn, largely in line with our forecast. Revenue jumped 52%YoY to RMB 5,127mn because revenue from property management services (PMS), extended VAS (EVAS), and Community VAS (CVAS) grew 74% YoY, 24% YoY and 68% YoY, respectively. Gross margin contracted 1.5ppt YoY to 36.7% due to increasing contribution from PMS, which entails a lower margin of 25.3%.

A-Living's FY19 results demonstrated its edge in M&A execution. 1) Administrative expenses dropped 2.4%YoY despite a larger GFA portfolio, reflecting its success in back-office integration with M&A targets; 2) Revenue and net profit of acquired targets rose ~20%YoY and ~25%YoY in 2019, based on the Group's estimates; 3) Significant GFA under management addition through M&A of 66.8mn sqm, representing 70% of total addition for 2019; 4) Operating cash flow jumped 81.2%YoY to RMB 1.6bn, which could be attributable to improved cash collection rate of acquired targets. A-Living also raised fees by 30% on average for several residential projects whose contracts were renewed in 2019. Effective tax rate was down by 1.2ppt YoY to 23.8% in 2019 since several subsidiaries received the preferential tax rate of 15% based on the High and New Technology Enterprise status.

Limited impact from COVID-19. Management estimated that additional one-off expenses related to the purchase of face masks and other anti-epidemic materials would be RMB10-20mn in 2020. However, such impact is likely to be offset by supportive policies such as the 50% cut in social insurance for Feb- Apr and management fee subsidies from local governments. In Shenzhen alone, A-Living would receive RMB 3mn in management fee subsidies.

Largest player by GFA at discounted valuation. We raise our 2020E and 2021E core profit forecasts by 1.2% and 0.2% to reflect better-than-expected cost control. Our SOTP-based TP is lifted to HK\$ 51.4 (from HK\$ 50.6). A-Living is attractively priced at 19.6x 2020E P/E, implying a 34% discount to the peer average of 29.8x. A-Living has become the largest PMC by GFA under management in China after recent completion of CMIG acquisition. It is our top pick given the attractive valuation and solid M&A execution. Maintain **BUY**.

Results and Valuation

FY ended Dec 31	2018A	2019A	2020E	2021E	2022E
Revenue (RMB mn)	3,377	5,127	9,008	13,276	15,295
Chg (% YoY)	91.8	51.8	75.7	47.4	15.2
Core net profit (RMB mn)*	778	1,212	1,722	2,376	2,912
Chg (% YoY)	157.8	55.9	42.0	38.0	22.6
Core EPS (RMB)	0.58	0.91	1.29	1.78	2.18
Chg (% YoY)	61.3	55.9	42.0	38.0	22.6
BVPS (RMB)	4.07	4.64	5.29	6.18	7.27
Chg (% YoY)	130.4	14.2	13.9	16.8	17.7
Core P/E (x)	43.33	27.79	19.57	14.18	11.57
P/B (x)	6.21	5.44	4.78	4.09	3.48
ROE (%)	14.8	19.9	24.4	28.8	30.0
ROA (%)	11.0	13.1	14.7	16.1	17.0
DPS(RMB)	0.30	0.45	0.65	0.89	1.09
Yield (%)	1.19	1.78	2.55	3.53	4.32
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

* Excluding exceptional items such as exchange gains and listing expenses

** RMB /HKD: 1.11

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 18, 2020

Rating: BUY
TP: HK\$ 51.40

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Share price (HK\$)	28.05
Est. share price return	83.2%
Est. dividend yield	2.6%
Est. total return	85.8%
Previous Rating & TP	BUY; HK\$50.6
Previous Report Date	6 Mar 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	38.00/10.362
Issued shares (mn)	1,333
Issued H-shares (mn)	433
Market cap (HK\$ mn)	37,057
H-share Mkt cap (HK\$ mn)	12,037
3-mth avg daily turnover(HK\$ mn)	209.13
Major shareholder(s) (%)	
Agile	54.0%
Greenland	7.5%
Gongqingcheng	6.0%

Source(s): Bloomberg, ABCI Securities

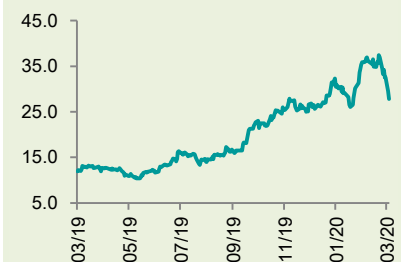
Share Performance (%)

	Absolute	Relative*
1-mth	(19.2)	(0.2)
3-mth	9.2	34.2
6-mth	75.5	107.5

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance (HK\$)

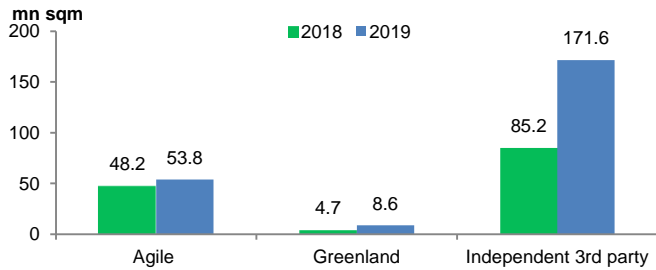


Source(s): Bloomberg, ABCI Securities



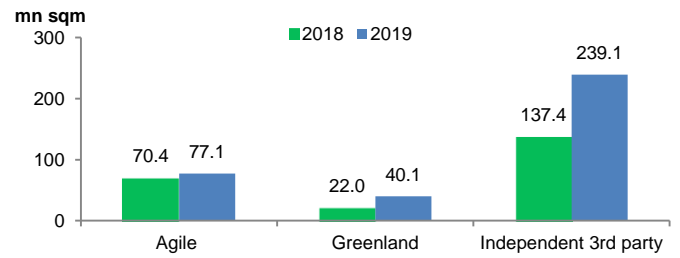
Risk factors: 1) Non-PM business, whose performance is more volatile than PM business. Such business accounted for 62% of total gross profit in FY19; 2) Increasing reliance on online sales by parent developer may affect agency business; 3) Post-M&A risks; 4) Project pipeline risk from Greenland, whose stakes in A-Living fell to 7.5% from 15% originally

Exhibit 1: GFA under management breakdown by developer



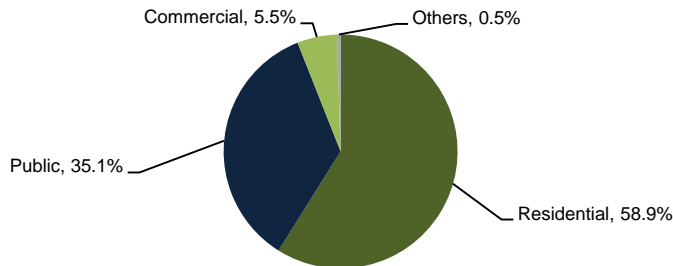
Source(s): Company, ABCI Securities

Exhibit 2: Contracted GFA breakdown by developer



Source(s): Company, ABCI Securities

Exhibit 3: GFA under management by project type (2019)



Source(s): Company, ABCI Securities

Exhibit 4: A-Living's FY19 results

P&L	FY19	FY18	YoY Chg
	RMBmn	RMBmn	(%)
Revenue	5,127	3,377	51.8
Cost of Sales	(3,244)	(2,087)	55.5
Gross Profit	1,883	1,290	46.0
Selling and distribution costs	(43)	(46)	(6.2)
Administrative expense	(295)	(302)	(2.4)
EBIT	1,545	942	64.0
EBIT Margin (%)	30.1	27.9	2.2ppt
Other income	28	10	191.7
Other expenses	0	(2)	(100.0)
Exceptional items	12	34	(64.0)
Interest income	103	93	11.4
Finance cost	(16)	(1)	11.4
Share of associates	23	0	1,682.8
Profit before tax	1,694	1,075	57.6
Tax	(403)	(264)	52.3
Profit after tax	1,292	811	59.3
Minority Interest	(61)	(10)	NA
Net profit	1,231	801	53.6
Core profit (excl. exceptional items)	1,212	778	55.9
Core Net margin	23.6%	23.0%	0.6%ppt

Source(s): Company, ABCI Securities

Balance sheet	Dec-19	Dec-18	YoY Chg
	RMBmn	RMBmn	(%)
Gross debt	21	-	NA
Cash	4,213	4,809	(12)
Net cash	4,191	4,809	(13)
By segment	FY19	FY18	YoY Chg
	RMBmn	RMBmn	(%)
Total revenue	5,127	3,377	51.8
- Property management services	2,830	1,625	74.2
- Extended value-added services	1,812	1,463	23.9
- Community value-added services	485	289	68.1
Gross profit	1,883	1,290	46.0
- Property management services	715	445	60.9
- Extended value-added services	903	698	29.4
- Community value-added services	264	147	79.6
Gross margin	36.7%	38.2%	-1.5%
- Property management services	25.3%	27.4%	-2.1%
- Extended value-added services	49.8%	47.7%	2.1%
- Community value-added services	54.4%	50.9%	3.5%
Operating statistics	FY19	FY18	YoY Chg
GFA Under management (mn sqm)	234.0	138.1	69.4
Contracted GFA (mn sqm)	356.2	229.8	55.0

Exhibit 5: A-Living's SOTP valuation

SoTP valuation	RMBmn	valuation method
PM Services, Extended VAS (ex- property agency) and CVAS	55,838	DCF with 8% WACC
Property Agency	967	4x 2020E PE, in-line with Hopefluent (733 HK)
Enterprise value	56,805	
2020E Net cash/ (Debt)	4,696	
2020E Equity value (RMBmn)	61,502	
2020E Equity value (HK\$mn)	68,574	
No. of shares (mn)	1,333	
TP (HK\$)*	51.40	

* RMB /HKD: 1.11

Source(s): Company, ABCI Securities estimates

Exhibit 6: Changes in TP and profit forecasts

	New	Old	Chg	Reasons
TP (HK\$)	51.4	50.6	1.6%	Better-than-expected administrative expenses control
Core profit (RMBmn)				
- 2020E	1,722	1,701	1.2%	Better-than-expected administrative expenses control
- 2021E	2,376	2,371	0.2%	Better-than-expected administrative expenses control

Source(s): Company, ABCI Securities estimates

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

A-Living Services Co., Limited (3319 HK, BUY)

China's Property Management Sector

Mar 18, 2020

Financial statements

Consolidated income statement (2018A-2022E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Revenue	3,377	5,127	9,008	13,276	15,295
Direct costs	(2,087)	(3,244)	(6,142)	(9,212)	(10,526)
Gross Profit	1,290	1,883	2,867	4,064	4,769
Selling and marketing expenses	(46)	(43)	(50)	(57)	(66)
Administrative expenses	(302)	(295)	(522)	(701)	(709)
EBIT	942	1,545	2,295	3,306	3,994
Finance cost	(1)	(16)	(1)	(1)	(1)
Finance income	93	103	102	134	184
Other income/ (expenses)	42	40	10	10	10
Others one-off items	-	23	25	27	30
Profit before tax	1,075	1,694	2,431	3,475	4,217
Tax	(264)	(403)	(608)	(869)	(1,054)
Profit after tax	811	1,292	1,823	2,606	3,163
Minority interest	(10)	(61)	(101)	(231)	(251)
Reported net profit	801	1,231	1,722	2,376	2,912
Less: exceptional items	(23)	(18)	-	-	-
Core net profit	778	1,212	1,722	2,376	2,912
Per share					
Core EPS (RMB)	0.58	0.91	1.29	1.78	2.18
DPS (RMB)	0.30	0.45	0.65	0.89	1.09
Payout ratio (%)	51%	49%	50%	50%	50%
BVPS (RMB)	4.07	4.64	5.29	6.18	7.27
Growth %					
Revenue	91.8%	51.8%	75.7%	47.4%	15.2%
Gross Profit	118.4%	46.0%	52.3%	41.8%	17.3%
EBIT	133.3%	64.0%	48.6%	44.0%	20.8%
Core net profit	157.8%	55.9%	42.0%	38.0%	22.6%
Margin %					
Gross margin	38.2%	36.7%	31.8%	30.6%	31.2%
EBIT margin	27.9%	30.1%	25.5%	24.9%	26.1%
Core net margin	23.7%	24.0%	19.1%	17.9%	19.0%
Revenue breakdown					
Property management services	1,625	2,830	6,431	10,094	11,336
Extended value-added services	1,463	1,812	1,849	2,163	2,532
Community value-added services	289	485	728	1,019	1,427
Total	3,377	5,127	9,008	13,276	15,295
Key assumptions					
Contracted GFA(mn sqm)	229.8	356.2	677.2	744.2	811.2
GFA under management (mn sqm)	138.1	234.0	584.4	662.6	733.9

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Current assets	5,989	6,855	7,354	10,670	13,321
Cash and restricted cash	4,809	4,213	4,696	6,967	9,124
Trade & other receivables	1,165	2,189	2,205	3,250	3,744
Loan and interest receivables due from related parties	0	440	440	440	440
Other current assets	15	12	12	12	12
Non-current assets	1,308	2,533	4,379	4,042	3,766
Property, plant & equipment	80	159	169	179	189
Goodwill and other intangible assets	1,212	1,755	3,566	3,192	2,876
Loan and interest receivables due from related parties	0	25	25	25	25
Other non-current assets	16	593	618	646	676
Total Assets	7,297	9,388	11,733	14,712	17,087
Current Liabilities	1,726	2,690	4,073	5,634	6,302
Short term borrowings	0	16	16	16	16
Trade & other payables	1,169	1,738	3,122	4,682	5,350
Other current liabilities	557	936	936	936	936
Non-current liabilities	60	192	192	192	192
Long term borrowings	0	5	5	5	5
Deferred tax liabilities	37	84	84	84	84
Other non-current liabilities	24	102	102	102	102
Total Liabilities	1,787	2,882	4,265	5,826	6,493
Net Assets	5,510	6,506	7,468	8,886	10,593
Shareholders' Equity	5,422	6,191	7,052	8,240	9,695
Minority Interest	88	315	416	647	898
Total Equity	5,510	6,506	7,468	8,886	10,593
Key ratio					
Gross debt (RMB mn)	-	21	21	21	21
Net debt (RMB mn)	(4,809)	(4,191)	(4,675)	(6,946)	(9,103)
Net gearing (%)	-87%	-64%	-63%	-78%	-86%

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
EBITDA	975	1,612	2,544	3,679	4,310
Change in Working Capital	(41)	(452)	1,367	516	174
Tax payment	(143)	(403)	(608)	(869)	(1,054)
Operating Cash flow	790	758	3,304	3,327	3,430
Purchase of PP&E	(19)	(10)	(10)	(10)	(10)
Loans repayments received from related parties	13	-	-	-	-
Interest received	93	103	102	134	184
Acquisition of subsidiaries	(116)	(591)	(2,060)	-	-
Others	10	-	-	-	-
Investing Cash flow	(19)	(497)	(1,968)	124	174
Debt raised	-	-	-	-	-
Debt repaid	-	-	-	-	-
Interest expenses	(0)	(16)	(1)	(1)	(1)
Equity raised	3,313	-	-	-	-
Dividend to shareholders	(50)	(600)	(861)	(1,188)	(1,456)
Others	(106)	(245)	10	10	10
Financing Cash flow	3,157	(861)	(852)	(1,179)	(1,447)
Net cash inflow/ (outflow)	3,928	(601)	484	2,271	2,157
Cash- beginning	880	4,808	4,207	4,691	6,962
Cash- year-end	4,808	4,207	4,691	6,962	9,119

Source(s): Company, ABCI Securities estimates



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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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