

# A-Living (3319 HK)

## Impressive CVAS growth

- Revenue from Community value-added services (CVAS) soared 158%YoY in 1H19 to RMB 206mn
- GFA under management jumped 53% HoH to 211mn sqm in 1H19
- Gross margin improved 0.7ppt YoY to 37.0% while net margin edged up 0.5ppt YoY to 24.2% despite significant GFA addition by M&A in 1H19
- Maintain **BUY** with revised SoTP-based TP of HK\$ 19.10 (from HK\$18.60)

**Growth momentum for CVAS continues.** A-Living's 1H19 revenue increased 59% YoY to RMB 2,241mn, driven by increased revenue from Property management (PM) services(+64% YoY)/ Extended VAS (+40% YoY)/ CVAS +158% YoY). Net profit rose 63% YoY to RMB 541mn, better than its previous guidance of a 50% YoY growth in the positive profit alert. Contracted GFA rose 41% HoH to 325mn sqm while GFA under management was up 53% HoH to 211mn sqm. The undelivered GFA of 114mn sqm will start generating revenue within the next two years, ensuring A-Living's future revenue growth. We are impressed by the significant CVAS revenue growth of 158%, which indicated the Group's success in 1) introducing its O2O platform upon acquiring PMCs; 2) improving the penetration rate of its CVAS.

**M&A did not result in margin erosion.** In 1H19, A-Living added 73.1mn sqm of GFA under management, of which Agile, Greenland, third-party projects and M&A accounted for 3%, 4%, 6% and 87% of the addition, respectively. Despite significant GFA addition from M&A in 1H19, gross margin improved 0.7ppt YoY to 37.0% while net margin grew 0.5ppt YoY to 24.2%. Although gross margin of PM services declined 2.5ppt YoY to 26.6% in 1H19 due to the lower fee rate of acquired targets, improving margins in Extended VAS (+4.9ppt YoY to 49.2%) and CVAS (+4.5ppt YoY to 51.4%) offset the impact. Leveraging on the well-recognized A-living brand, the acquired targets managed to secure more new projects. For instance, revenue of Nanjing Zizhu, a PMC acquired in 2018, grew 20% YoY in 1H19. A-living also combined 23 city-level headquarters into seven regional ones, which resulted in significant SG&A cost saving.

**Maintain BUY with revised TP of HK\$ 19.10.** We raise our net profit forecast by 11-22% for 2019E-20E due to better-than-expected GFA addition in 1H19. TP is lifted to HK\$19.10 (from HK\$18.60). We apply the SoTP valuation (from DCF previously) in order to value the property agency business, an unusual type of business among listed PMC, at 4x 2019 PE, given its riskier nature with its high correlation to property sales. The P/E multiple we apply is in-line with Hopefluent (733 HK), a major China real estate agent listed in HK. A-Living remains to be our top pick given its fast GFA growth and high net margin among PMC peers. Maintain **BUY**.

**Risk factors:** 1) Non-PM business, which tends to be more volatile than PM business, accounts for 61% of total gross profit in 1H19; 2) Intangible assets, which represent 20% and 31% of total assets and total equity as at Jun 2019, could be subjected to impairment loss if business environment deteriorates; 3) Post-M&A risks; 4) Low financial leverage may suppress ROE.

### Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (RMB mn)	1,761	3,377	5,278	7,255	9,082
Chg (% YoY)	41.5	91.8	56.3	37.5	25.2
Core net profit (RMB mn)*	302	778	1,198	1,677	2,143
Chg (% YoY)	80.3	176.5	49.5	40.0	27.8
Core EPS (RMB)	0.36	0.58	0.90	1.26	1.61
Chg (% YoY)	61.9	61.3	54.0	40.0	27.8
BVPS (RMB)	1.76	4.07	4.52	5.14	5.95
Chg (% YoY)	354.4	130.4	11.0	13.9	15.6
Core P/E (x)	35.7	22.16	14.38	10.27	8.04
P/B (x)	7.3	3.18	2.86	2.51	2.17
ROE (%)	19.7	14.8	19.9	24.4	27.0
ROA (%)	11.5	11.0	14.2	16.9	18.5
DPS(RMB)	-	0.30	0.45	0.63	0.80
Yield (%)	-	2.32	3.48	4.87	6.22
Net gearing (%)		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

Aug 12, 2019

Rating: **BUY**

TP: HK\$ 19.10

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Share price (HK\$)	14.36
Est. share price return	33.0%
Est. dividend yield	3.5%
Est. total return	36.5%
Previous Rating & TP	BUY; HK\$18.6
Previous Report Date	7 Jul 2019

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	16.76/8.84
Issued shares (mn)	1,333
Issued H-shares (mn)	433
Market cap (HK\$ mn)	19,141
H-share Mkt cap (HK\$ mn)	6,218
3-mth avg daily turnover(HK\$ mn)	45.44
Major shareholder(s) (%)	
Agile	54%
Greenland	15%
Gongqingcheng	6%

Source(s): Bloomberg, ABCI Securities

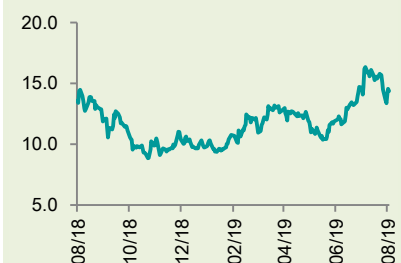
### Share Performance (%)

	Absolute	Relative*
1-mth	(10.8)	(2.3)
3-mth	34.4	45.3
6-mth	43.6	55.4

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### Share performance (HK\$)



Source(s): Bloomberg, ABCI Securities



**Exhibit 1: A-Living's 1H19 results**

P&L	1H19	1H18	YoY Chg
	RMBmn	RMBmn	(%)
<b>Revenue</b>	<b>2,241</b>	<b>1,406</b>	<b>59.4</b>
Cost of Sales	(1,412)	(895)	57.7
<b>Gross Profit</b>	<b>829</b>	<b>510</b>	<b>62.5</b>
<b>Gross Margin (%)</b>	<b>37.0</b>	<b>36.3</b>	<b>+0.7ppt</b>
Selling and distribution costs	(18)	(16)	15.7
Administrative expense	(125)	(108)	15.2
<b>EBIT</b>	<b>687</b>	<b>386</b>	<b>77.7</b>
<b>EBIT Margin (%)</b>	<b>30.6</b>	<b>27.5</b>	<b>3.1</b>
Other income	13	3	299.4
Interest income	50	23	121.6
Other exceptional items	7	30	nm
Net impairment losses on financial assets	(10)	(2)	488.1
Share of associates	6	0	nm
Net finance cost/(income)	(2)	(1)	281.0
<b>Profit before tax</b>	<b>750</b>	<b>440</b>	<b>70.4</b>
Tax	(182)	(105)	73.9
<b>Profit after tax</b>	<b>568</b>	<b>336</b>	<b>69.3</b>
Minority Interest	(27)	(3)	687.4
<b>Net profit</b>	<b>541</b>	<b>332</b>	<b>62.9</b>
<b>Net margin</b>	<b>24.2%</b>	<b>23.6%</b>	<b>+0.5ppt</b>
<b>Core profit (excl. exceptional items)</b>	<b>536</b>	<b>310</b>	<b>73.3</b>

Balance sheet	June-19	Dec-18	YoY Chg
	RMBmn	RMBmn	(%)
Gross debt	47	0	na
Cash	4,354	4,809	(9)
<b>Net debt</b>	<b>(4,307)</b>	<b>(4,809)</b>	<b>(10)</b>
<b>Net gearing (%)</b>	<b>Net cash</b>	<b>Net cash</b>	<b>--</b>
By segment	1H19	1H18	YoY Chg
	RMBmn	RMBmn	(%)
<b>Total revenue</b>	<b>2,241</b>	<b>1,406</b>	<b>59.4</b>
- Property management services	1,227	750	63.6
- Extended value-added services	808	575	40.3
- Community value-added services	206	80	157.9
<b>Gross profit</b>	<b>829</b>	<b>510</b>	<b>62.5</b>
- Property management services	326	218	49.7
- Extended value-added services	398	255	55.8
- Community value-added services	106	37	182.8
<b>Gross margin</b>	<b>37.0%</b>	<b>36.3%</b>	<b>0.7ppt</b>
- Property management services	26.6%	29.0%	-2.5ppt
- Extended value-added services	49.2%	44.3%	4.9ppt
- Community value-added services	51.4%	46.9%	4.5ppt
Operating statistics	1H19	FY18	YoY Chg
GFA Under management (mn sqm)	211.2	138.1	52.9%
Contracted GFA (mn sqm)	324.6	229.8	41.2%
Average residential management fee			
- Agile & Greenland (RMB/sqm/mth)	3.04	2.99	1.7%
- 3 <sup>rd</sup> parties (ex. M&A) (RMB/sqm/mth)	2.04	1.86	9.7%

Source(s): Company, ABCI Securities

**Exhibit 2: A-Living's SoTP valuation**

SoTP valuation	RMBmn	valuation method
PM Services, Extended VAS (ex- property agency) and CVAS	16,735	DCF with 9% WACC
Property Agency	934	4x 2019E PE, in-line with Hopefluent (733 HK)
<b>Enterprise value</b>	<b>17,670</b>	
2019E Net cash/ (Debt)	5,291	
<b>2019E Equity value (RMBmn)</b>	<b>22,961</b>	
<b>2019E Equity value (HK\$m)</b>	<b>25,516</b>	
No. of shares (mn)	1,333	
<b>TP (HK\$)</b>	<b>19.10</b>	

Source(s): Company, ABCI Securities estimates

**Exhibit 3: Changes in TP and profit forecast**

	New	Old	Change	Reason
<b>TP (HK\$)</b>	19.10	18.60	2.7%	Faster-than-expected GFA addition in 1H19; Valuation methodology switching from DCF to SoTP
<b>Core profit (RMBmn)</b>				
- 2019E	1,198	1,076	11.4%	Faster-than-expected GFA addition in 1H19
- 2020E	1,677	1,380	21.5%	Faster-than-expected GFA addition in 1H19

Source(s): Company, ABCI Securities estimates



## Financial statements

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

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
<b>Revenue</b>	1,761	3,377	5,278	7,255	9,082
Direct costs	(1,170)	(2,087)	(3,314)	(4,563)	(5,722)
<b>Gross Profit</b>	591	1,290	1,963	2,692	3,361
Selling and marketing expenses	(33)	(46)	(53)	(61)	(70)
Administrative expenses	(154)	(302)	(402)	(499)	(562)
<b>EBIT</b>	404	942	1,509	2,132	2,729
Finance cost	(49)	(1)	-	-	-
Finance income	53	93	101	117	141
Other income/ (expenses)	10	42	10	10	10
Others one-off items	(16)	-	-	-	-
<b>Profit before tax</b>	403	1,075	1,619	2,258	2,880
Tax	(102)	(264)	(405)	(565)	(720)
<b>Profit after tax</b>	300	811	1,214	1,694	2,160
Minority interest	(10)	(10)	(17)	(17)	(17)
<b>Reported net profit</b>	290	801	1,198	1,677	2,143
Less: exceptional items	12	-23	0	-0	0
<b>Core net profit</b>	302	778	1,198	1,677	2,143
<b>Per share</b>					
Core EPS (RMB)	0.36	0.58	0.90	1.26	1.61
DPS (RMB)	-	0.30	0.45	0.63	0.80
Payout ratio (%)	0%	51%	50%	50%	50%
BVPS (RMB)	1.76	4.07	4.52	5.14	5.95
<b>Growth %</b>					
Revenue	41.5%	91.8%	56.3%	37.5%	25.2%
Gross Profit	89.5%	118.4%	52.2%	37.1%	24.9%
EBIT	88.7%	133.3%	60.2%	41.3%	28.0%
Core net profit	80.3%	176.5%	49.5%	40.0%	27.8%
<b>Margin %</b>					
Gross margin	33.5%	38.2%	37.2%	37.1%	37.0%
EBIT margin	22.9%	27.9%	28.6%	29.4%	30.0%
Core net margin	16.5%	23.7%	22.7%	23.1%	23.6%
<b>Revenue breakdown</b>					
Property management services	1,206	1,625	2,612	3,602	4,151
VAS to non-property owners	453	1,463	1,943	2,353	2,852
VAS to property owners	102	289	722	1,300	2,079
Total	1,761	3,377	5,278	7,255	9,082
<b>Key assumptions</b>					
Contracted GFA(mn sqm)	126.1	229.8	357.5	464.5	571.5
GFA under management (mn sqm)	78.3	138.1	230.2	270.4	325.4

Source(s): Company, ABCI Securities estimates



**Consolidated balance sheet (2014A-2019E)**

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
<b>Current assets</b>	1,399	5,989	6,598	8,190	9,955
Cash and restricted cash	880	4,809	5,291	6,399	7,716
Trade & other receivables	488	1,165	1,292	1,776	2,223
Loan and interest receivables due from related parties	13	0	0	0	0
Other current assets	17	15	15	15	15
<b>Non-current assets</b>	1,112	1,308	1,829	1,727	1,640
Property, plant & equipment	71	80	90	100	110
Goodwill and other intangible assets	1,029	1,212	1,723	1,611	1,514
Loan and interest receivables due from related parties	0	0	0	0	0
Other non-current assets	12	16	16	16	16
<b>Total Assets</b>	2,511	7,297	8,428	9,917	11,594
<b>Current Liabilities</b>	1,015	1,726	2,242	2,877	3,466
Short term borrowings	0	0	0	0	0
Trade & other payables	952	1,169	1,685	2,319	2,908
Other current liabilities	62	557	557	557	557
<b>Non-current liabilities</b>	22	60	60	60	60
Long term borrowings	0	0	0	0	0
Deferred tax liabilities	22	37	37	37	37
Other non-current liabilities	0	24	24	24	24
<b>Total Liabilities</b>	1,037	1,787	2,302	2,937	3,526
<b>Net Assets</b>	1,474	5,510	6,125	6,980	8,069
Shareholders' Equity	1,472	5,422	6,021	6,860	7,931
Minority Interest	2	88	104	121	137
<b>Total Equity</b>	1,474	5,510	6,125	6,980	8,069
<b>Key ratio</b>					
Gross debt (RMB mn)	-	-	-	-	-
Net debt (RMB mn)	(880)	(4,809)	(5,291)	(6,399)	(7,716)
Net gearing (%)	-60%	-87%	-86%	-92%	-96%

Source(s): Company, ABCI Securities estimates



**Consolidated cash flow statement (2014A-2019E)**

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
EBITDA	419	975	1,588	2,244	2,826
Change in Working Capital	(55)	(41)	389	151	142
Tax payment	(76)	(143)	(405)	(565)	(720)
<b>Operating Cash flow</b>	<b>287</b>	<b>790</b>	<b>1,572</b>	<b>1,830</b>	<b>2,248</b>
Purchase of PP&E	(17)	(19)	(10)	(10)	(10)
Loans repayments received from related parties	1,036	13	-	-	-
Interest received	46	93	101	117	141
Acquisition of subsidiaries	(981)	(116)	(591)	-	-
Others	(35)	10	-	-	-
<b>Investing Cash flow</b>	<b>49</b>	<b>(19)</b>	<b>(500)</b>	<b>107</b>	<b>131</b>
Debt raised	-	-	-	-	-
Debt repaid	(809)	-	-	-	-
Interest expenses	(33)	(0)	-	-	-
Equity raised	1,199	3,313	-	-	-
Dividend to shareholders	(270)	(50)	(599)	(838)	(1,072)
Others	(67)	(106)	10	10	10
<b>Financing Cash flow</b>	<b>20</b>	<b>3,157</b>	<b>(589)</b>	<b>(829)</b>	<b>(1,062)</b>
Net cash inflow/ (outflow)	357	3,928	483	1,108	1,317
<b>Cash- beginning</b>	<b>523</b>	<b>880</b>	<b>4,808</b>	<b>5,291</b>	<b>6,399</b>
<b>Cash- year-end</b>	<b>880</b>	<b>4,808</b>	<b>5,291</b>	<b>6,399</b>	<b>7,716</b>

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 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.

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