

A-Living (3319 HK)

Brand new group with full property management (PM) coverage

- **Re-rating during the past two months.** Since the announcement of acquisition of CMIG PM/ New CMIG PM, A-Living's share price has largely outperformed the peers. We believe this was mainly attributed to valuation recovery. For a long time A-Living's valuation was suppressed mainly due to (i) its M&A driven strategy rather than organic growth, (ii) large portion of revenue from VAS to developers, (iii) relatively smaller scale size compared to tier-1 PM names. But as the acquisition is completed, organic growth will play a more significant role. Revenue from PM segment will instantly grow and lower the proportion of revenue from VAS to developers, and business scale will largely expand with full coverage in PM industry. All major drawbacks can be resolved.
- **Evolve through M&A, new positioning of A-Living.** As the target company is a large PM holding platform, we believe consolidation of CMIG / New CMIG PM and A-Living is the Company's top priority in the near term. The acquisition is not a simply profit add up. We are expecting a huge synergy and strong capability of organic growth to be created. A-Living will thereafter expand and acquire third-party projects as a PM group with rich brands and sophisticated companies, rather than expanding alone like before. A-Living is accordingly switching its expansion strategy from M&A to organic growth. We believe, after large cash expenditure, the Company would cool down a while in M&A. But, in the meanwhile, in our view, A-Living has incentive to increase share interest in each acquired subsidiary/associate as part of the consolidation plan. The bottom line is, through this mega M&A, A-Living is evolving into a large comprehensive PM Group with full coverage of PM service. This should uplift the Company's profit as well as valuation in the long run.
- **Non-residential PM, a new market for listcos.** Most PM listcos are still residential PM focused. According to our forecasts, by the year of 2021, market size of PM will break through RMB1tn, of which non-residential PM would account for RMB440.0bn. This is an equally large market compared to residential PM. Non-residential PM will be the other market for listcos. In fact, large PM listcos like CGS (6098 HK, NR), CPH (2669 HK, HOLD) and POLY PM have already been expanding in this field. Within A-Living's acquisition package, there are some leading non-residential PM companies, like Shanghai Minghua. Minghua is a leading PM company of high-end public building management in Shanghai, managing numerous landmarks and transportation infrastructures in Shanghai, including China Art Museum and Hongqiao Comprehensive Transportation Hub. We believe A-Living has made a head start in the competition.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	1,761	3,377	5,316	11,802	13,583
YoY growth (%)	41.5	91.8	57.4	122.0	15.1
Net income (RMB mn)	290	801	1,153	1,718	1,958
EPS (RMB)	0.35	0.62	0.87	1.29	1.47
YoY growth (%)	59.1	77.1	39.5	48.9	14.0
P/E (x)	67.4	38.1	27.3	18.3	16.1
P/B (x)	44.1	7.5	7.4	7.0	6.5
Yield (%)	n.a.	1.3	1.1	1.6	1.9
ROE (%)	19.7	14.8	18.5	23.1	22.2
Net gearing (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$33.08
(Previous TP)	HK\$25.89)
Up/Downside	+25.8%
Current Price	HK\$26.3

China Property Service Sector

Chengyu Huang

(852) 3761 8773

huangchengyu@cmbi.com.hk

Samson Man, CFA

(852) 3900 0853

samsonman@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn)	35,067
Avg 3 mths t/o (HK\$ mn)	153.5
52w High/Low (HK\$)	27.95/9.41
Total Issued Shares (mn)	1,333
Source: Bloomberg	

Shareholding Structure

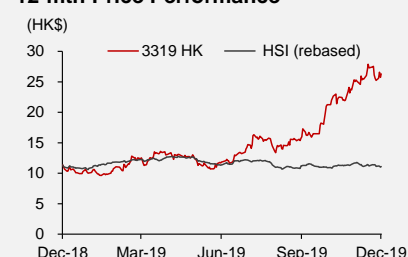
Agile	54.0%
Greenland Holdings	11.5%
Free float	28.5%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	1.6%	7.4%
3-mth	63.2%	66.1%
6-mth	120.5%	126.4%
12-mth	126.7%	137.1%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

- **Reiterate top pick status.** We reaffirm A-Living as our **Top Pick** in property management sector as its valuation is still attractive and we look forward to the inclusion of HK-Stock Connect in the next review. Furthermore, the acquisition largely enhances the Company's competitiveness in fragmented PM markets, especially non-residential PM market, which we believe is the next new industry focus. We maintain our earnings forecast unchanged but raise our FY20 P/E target multiple to 23x. Thus our TP is HK\$33.08. **Maintain BUY.**

Figure 1: A-Living's 12M forward P/E



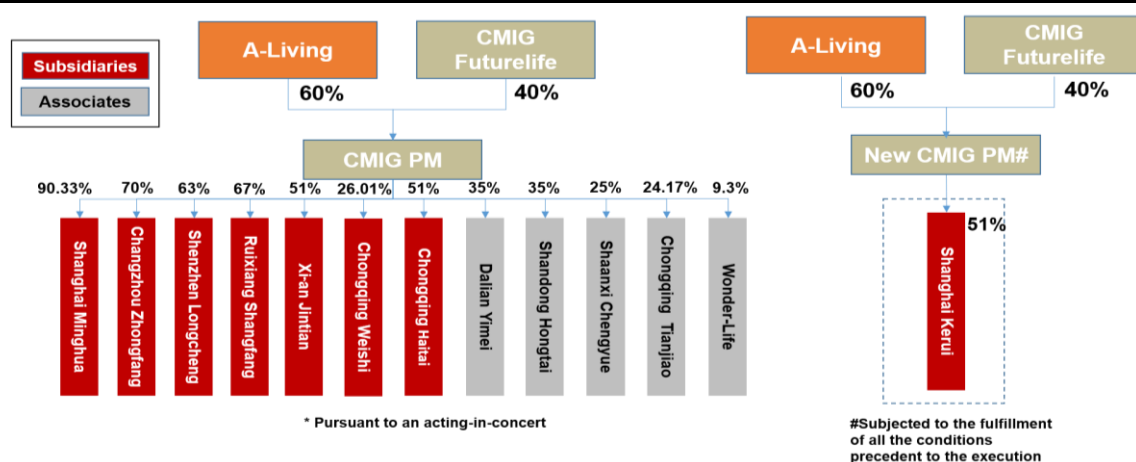
Source: Bloomberg, CMBIS

Figure 2: Peers' table

Name	BLP Ticker	Share Price (LC)	Mkt Cap	P/E		
		5/12/2019	(LC bn)	18A	19E	20E
COUNTRY GARDEN S	6098 HK	26.30	71.3	60.1	42.1	31.9
A-LIVING SERVI-H	3319 HK	26.30	35.1	35.8	27.7	19.8
GREENTOWN SERVIC	2869 HK	8.55	23.8	42.4	37.5	28.6
CHINA OVERSEAS P	2669 HK	4.81	15.8	39.3	30.8	24.5
COLOUR LIFE SERV	1778 HK	4.33	6.2	9.6	9.5	8.1
EVER SUNSHINE LI	1995 HK	4.65	7.1	44.3	31.7	19.5
S-ENJOY SERVICE	1755 HK	10.84	8.9	38.1	31.5	21.5
AOYUAN HEALTHY L	3662 HK	6.00	4.4	30.6	22.9	14.0

Source: Bloomberg, CMBIS

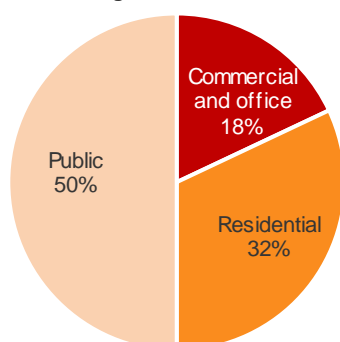
Figure 3: Structure upon completion



Source: Company data

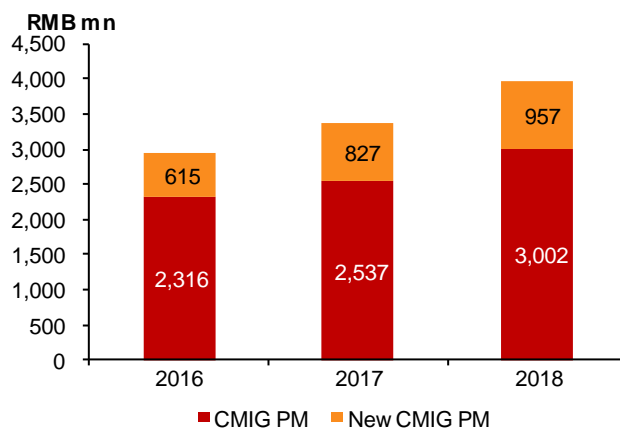
Figure 4: Managed GFA of target company

191 mn sq m total managed GFA

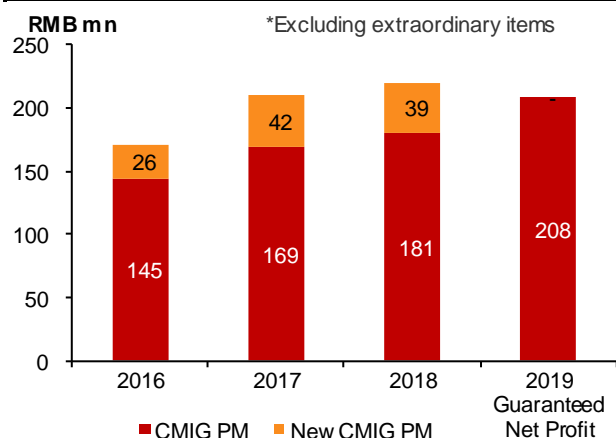


(Only calculating the GFA under management of subsidiaries)

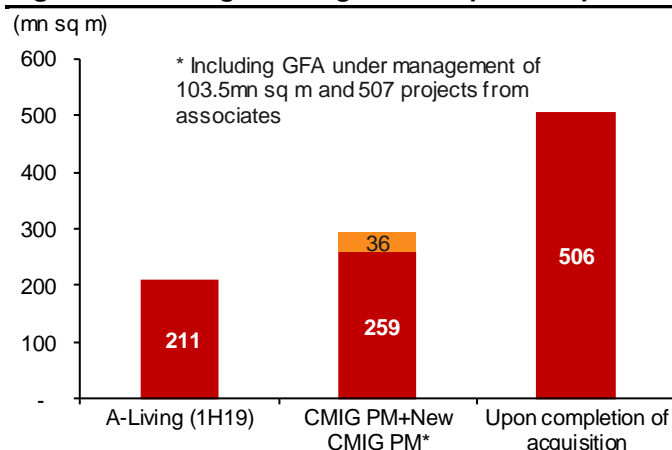
Source: Company data

Figure 5: Revenue of target company

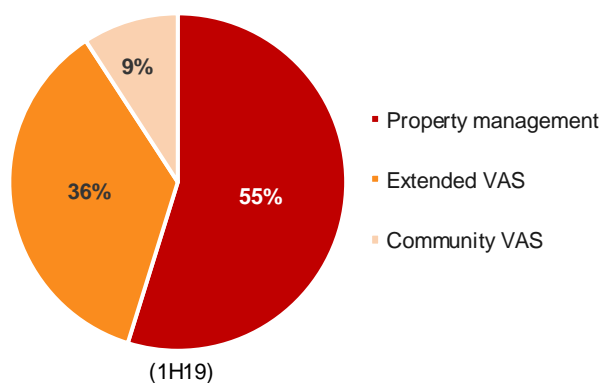
Source: Company data

Figure 6: Net profit to owners of target company

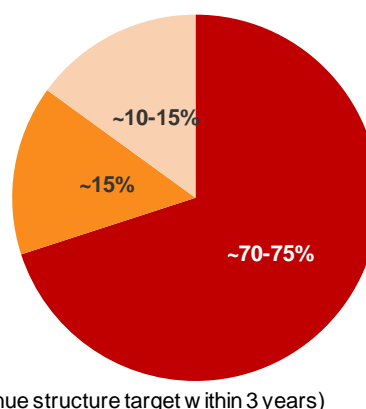
Source: Company data

Figure 7: A-Living's managed GFA upon completion

Source: Company data

Figure 8: A-Living's revenue structure before acquisition

Source: Company data

Figure 9: A-Living's revenue structure after acquisition

Source: Company data

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Turnover	1,761	3,377	5,316	11,802	13,583
Property management services	1,206	1,625	2,894	8,645	9,756
Extended VAS	453	1,463	1,902	2,378	2,853
Community VAS	102	289	520	780	975
Cost of sales	(1,170)	(2,087)	(3,491)	(8,509)	(9,701)
Gross profit	591	1,290	1,825	3,293	3,883
Other income/expense, net	11	100	145	161	189
Selling and marketing expenses	(33)	(46)	(53)	(118)	(136)
Administrative expenses	(171)	(302)	(319)	(649)	(679)
EBIT	397	1,042	1,598	2,687	3,256
Share from associates	-	-	12	12	12
Finance costs	4	(1)	(5)	(5)	(5)
Exceptional	1	34	(3)	-	-
PROFIT BEFORE TAX	403	1,075	1,602	2,694	3,263
Income tax	(102)	(264)	(400)	(674)	(816)
PROFIT FOR THE YEAR	300	811	1,201	2,021	2,448
Non-controlling interests	(10)	(10)	(48)	(303)	(490)
Net profit to shareholders	290	801	1,153	1,718	1,958

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Non-current assets	1,112	1,308	2,220	3,242	4,264
Property, plant and equipment	71	80	170	180	190
Goodwill	919	1,045	1,545	2,545	3,545
Others	122	182	504	516	528
Current assets	1,399	5,989	7,158	10,452	11,958
Inventories	17	15	25	62	71
Trade and other receivables	488	1,165	1,834	4,072	4,686
Cash and cash equivalents	880	4,808	5,056	6,076	6,959
Others	14	1	243	243	243
Total assets	2,511	7,297	9,378	13,694	16,222
Current liabilities	1,015	1,726	2,823	5,634	6,301
Borrowings	-	-	54	54	54
Trade and other payables	923	1,169	1,955	4,766	5,434
Others	92	557	814	814	814
Non-current liabilities	22	60	189	189	189
Borrowings	-	-	17	17	17
Others	22	60	172	172	172
Total liabilities	1,037	1,787	3,012	5,823	6,491
Equity to shareholders	1,472	5,422	6,230	7,432	8,803
Non-controlling interests	2	88	136	439	928
Total Equity	1,474	5,510	6,365	7,871	9,731

Source: Company data, CMBIS estimates

Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before tax	403	1,075	1,602	2,694	3,263
D&A, impairment	16	33	10	20	20
Change in working capital	(43)	(51)	107	537	44
Others	(88)	(174)	(412)	(686)	(828)
Net cash from operating	287	883	1,307	2,565	2,500
Capex	17	(20)	(100)	(30)	(30)
Associated companies	29	(107)	(659)	(1,000)	(1,000)
Others	3	14	-	-	-
Net cash from investing	49	(112)	(759)	(1,030)	(1,030)
Equity raised	1,202	3,314	-	-	-
Change of debts	(802)	(32)	47	-	-
Others	(380)	(141)	(346)	(515)	(587)
Net cash from financing	20	3,142	(299)	(515)	(587)
Net change in cash	357	3,913	248	1,020	883
Cash at the beginning	523	880	4,808	5,056	6,076
Exchange difference	-	15	-	-	-
Cash at the end	880	4,808	5,056	6,076	6,959

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Sales mix (%)					
Property management services	68.5	48.1	54.4	73.2	71.8
Extended VAS	25.7	43.3	35.8	20.1	21.0
Community VAS	5.8	8.6	9.8	6.6	7.2
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	33.5	38.2	34.3	27.9	28.6
EBIT margin	22.6	30.9	30.1	22.8	24.0
Net margin	16.5	23.7	21.7	14.6	14.4
Effective tax rate	25.5	24.6	25.0	25.0	25.0
Growth (%)					
Revenue	41.5	91.8	57.4	122.0	15.1
Gross profit	89.5	118.4	41.5	80.4	17.9
EBIT	82.8	162.3	53.4	68.1	21.2
Net profit	80.3	176.5	44.0	48.9	14.0
Balance sheet ratios					
Current ratio (x)	1.4	2.1	2.0	2.0	2.0
Receivable turnover days	101	126	126	126	126
Payables turnover days	288	204	204	204	204
Inventory turnover days	5	3	3	3	3
Net debt / total equity ratio (%)	net cash	net cash	net cash	net cash	net cash
Returns (%)					
ROE	19.7	14.8	18.5	23.1	22.2
ROA	12.0	11.1	12.8	14.8	15.1
Per share					
EPS (RMB)	0.35	0.62	0.87	1.29	1.47
DPS (RMB)	N/A	0.30	0.26	0.39	0.44
BVPS (RMB)	0.53	3.16	3.20	3.36	3.63

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIS

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM	: Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.