

# Aoyuan Healthy Life (3662 HK)

## M&A explores new healthcare dimension

Aoyuan HL announced the acquisition of 55% equity interest in Zhejiang Liantianmei Corporate Management co. Ltd. (“Liantianmei”), a medical aesthetic services company with two private hospitals under its name. This is a major step towards constructing a community healthcare platform to complement the Company’s property management business.

- Acquisition of medical beauty company.** Aoyuan HL announced on Friday the acquisition of 55% equity interest in Liantianmei, a medical aesthetic company in China specializing in cosmetic surgery. Liantianmei operates two private medical aesthetic hospitals in Hangzhou and has more than 0.3mn customers. In 1H20 Liantianmei recorded a revenue of RMB 212mn and net profit of RMB 46mn, representing a drastic improvement in profitability which the Company attributes to effective cost control and resilient demand amidst COVID-19. Consideration for the acquisition is set at 16.7x 2020 P/E, and capped at 691mn which we expect will be reached.
- Pioneering the community healthcare concept.** The Liantianmei acquisition represents a major step in developing a comprehensive community healthcare platform, building upon previous efforts including eldercare services and Traditional Chinese medicine services. The Company targets 10-15% bottom line growth for acquired companies, and expects the healthcare segment to make up 20%-30% of total revenue in the long run.
- Employing a multi-pronged growth strategy.** With the addition of community healthcare, the Company now operates three major segments. For property management, Aoyuan HL targets 75-80mn sq m in contracted GFA (1H20: 73.0mn sq m, 16.1mn sq m managed GFA); in terms of commercial operation, an additional 6-8 mall openings per year. Overall, the Company targets 55%-60% 2019-22 CAGR in revenue (1H20: +39.5% YoY).
- Could see more incentives for non-PM M&As going forward.** M&A of non-PM companies is rarely explored, partly because PM companies usually boast relatively cheap valuation (avg. 10-12x 2020 P/E), high and visible growth, and contributes to the GFA target. However, lifestyle or consumption-themed M&As could help expand the scope of service, and may become more attractive as competition intensifies in the M&A market for PM companies.

### Earnings Summary

(YE 31 Dec)	FY16A	FY17A	FY18A	FY19A
Revenue (RMB mn)	265	436	619	901
YoY growth (%)	N.A.	64.5	42.0	45.6
Net income (RMB mn)	41	70	78	162
EPS (RMB)	N.A.	N.A.	0.17	0.24
YoY growth (%)	N.A.	N.A.	N.A.	41.2
P/E (x)	N.A.	N.A.	N.A.	25.6
P/B (x)	N.A.	N.A.	N.A.	5.3
Yield (%)	N.A.	N.A.	N.A.	1.5
ROE (%)	61.7	73.0	66.2	33.5
Net gearing (%)	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

**NOT RATED**

Current Price

HK\$6.15

### China Property Service Sector

#### Bowen Li

(852) 3657 6239

bowenli@cmbi.com.hk

#### Samson Man, CFA

(852) 3900 0853

samsonman@cmbi.com.hk

#### Stock Data

Mkt Cap (HK\$ mn)	4,466
Avg 3 mths t/o (HK\$ mn)	56.39
52w High/Low (HK\$)	9.65/ 4.59
Total Issued Shares (mn)	726

Source: Bloomberg

#### Shareholding Structure

China Aoyuan	54.9%
Chiu Man Wai	6.4%
Free float	38.7%

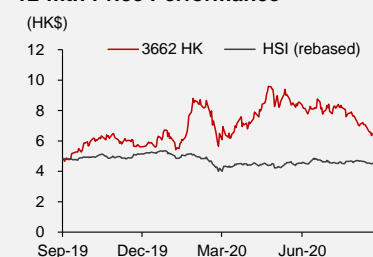
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	-13.9%	-12.7%
3-mth	-23.4%	-22.8%
6-mth	1.2%	-5.6%

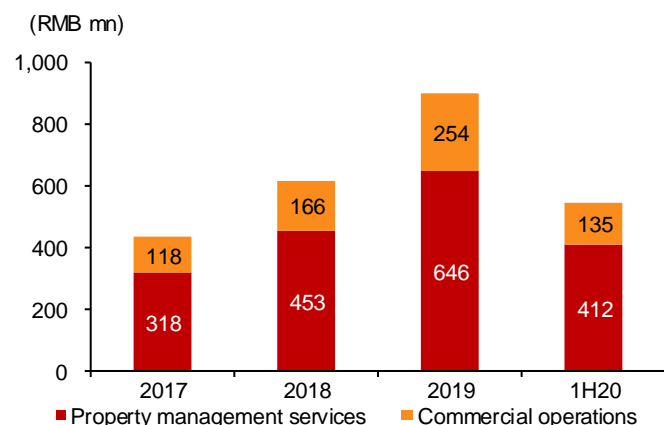
Source: Bloomberg

#### 12-mth Price Performance

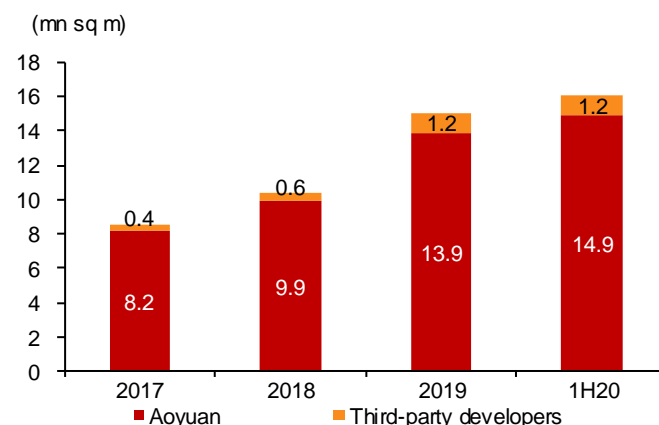


Source: Bloomberg

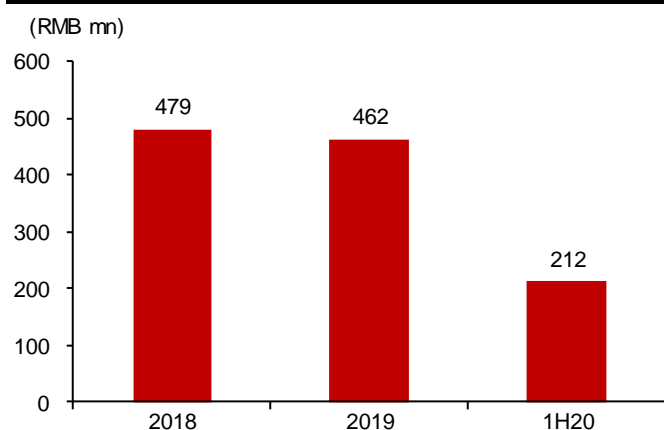
Auditor: Deloitte

**Figure 1: Revenue**

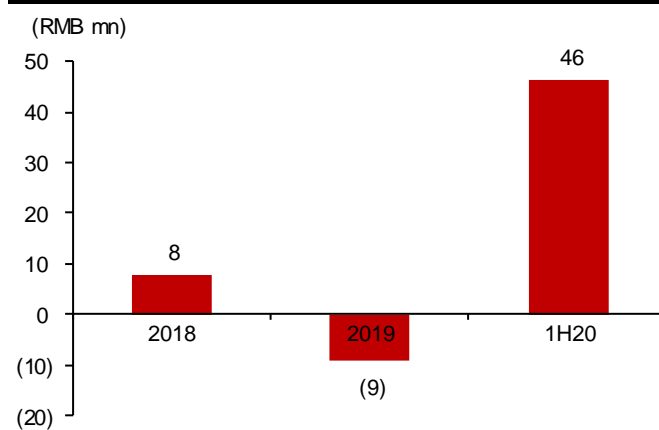
Source: Company data, CMBIS

**Figure 2: GFA under management**

Source: Company data, CMBIS

**Figure 3: Revenue of Liantianmei**

Source: Company data, CMBIS

**Figure 4: Net profit of Liantianmei**

Source: Company data, CMBIS

**Figure 5: Summary of stated operating targets**

Segment	Target
Property management	<ul style="list-style-type: none"> <li>Contracted GFA: 70-80mn sq m</li> <li>&gt;10% of managed GFA from third-party developers</li> <li>Non-residential properties make up 30% of managed GFA</li> <li>Community VAS make up 15%-20% of revenue</li> </ul>
Commercial operation	<ul style="list-style-type: none"> <li>6-8 New mall openings per year</li> </ul>
Community healthcare	<ul style="list-style-type: none"> <li>10%-15% net profit growth for acquisitions</li> <li>Additional 10,000 sticky customers per year for medicinal beauty business</li> <li>Make up 20-30% of total revenue</li> </ul>

Source: Company data, CMBIS

# 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

CMBIS is not a registered broker-dealer in the United States. As a result, CMBIS is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

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.