

# A-Living (3319 HK)

## Flying Dragon, Leaping Tiger

On 26 Sep 2019, A-Living announced to acquire 60% equity interests of CMIG PM and New CMIG PM at the consideration as much as RMB2.05bn, based on 12.5x P/E. We believe the acquisition will instantly expand A-Living's business scale and enhance the capability of organic growth. After this mega deal, we expect the Company's strategy will switch from M&A driven to organic growth. Valuation of A-Living will be re-rated accordingly.

- **Expected to break into tier-1.** CMIG PM/New CMIG PM is one of the largest PM services providers in China with managed GFA of 191mn sq m. Upon the transaction completion, the managed GFA of A-Living (1H19: 211mn sq m) will exceed 400mn sq m. We think the giant leap in business scale brought A-Living into tier-1 club, which helps to promote the valuation of the Company given its huge valuation gap with leading players.
- **Notable brands with full coverage of PM industry.** CMIG PM/New CMIG PM is a holding platform of several leading PM companies which previously acquired by CMIG PM/ New CMIG PM. CMIG PM operates property management business mainly through its seven subsidiaries and five associates companies with each having its own brand and team. New CMIG PM operates through Shanghai Kerui. (i) These PM companies cover 28 provinces, municipalities and autonomous regions with 123 cities. 34% of the managed GFA are located in YRD, 24% in Shandong Peninsula, 20% in Sichuan-Chongqing and 4% in Shenzhen. (ii) Of the acquired 191mn sq m managed GFA, 32% are Residential projects. 18% are Commercial/office and 50% are Public projects. The acquisition will diversify A-Living's project portfolio and enable A-Living to enter certain niche PM markets.
- **Expand as a group.** We believe a wide range of geographic/project coverage and experienced team in each of the subsidiary and local city could largely enhance the capability of A-Living's organic growth. A-Living will thereafter expand and acquire third-party projects as a PM group with rich brands and sophisticated companies, rather than a single company fighting alone previously. A-Living could become a large comprehensive PM platform providing full coverage of PM service.

### 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)	54.5	30.7	22.0	14.8	13.0
P/B (x)	35.6	6.0	5.9	5.7	5.2
Yield (%)	n.a.	1.6	1.4	2.0	2.3
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\$25.89**  
 (Previous TP **HK\$19.00**)  
 Up/Downside **+21.8%**  
 Current Price **HK\$21.25**

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#### Stock Data

Mkt Cap (HK\$ mn)	28,333
Avg 3 mths t/o (HK\$ mn)	66.8
52w High/Low (HK\$)	21.45/8.84
Total Issued Shares (mn)	1,333

Source: Bloomberg

#### Shareholding Structure

Agile	54%
Greenland Holdings	15%
Free float	25%

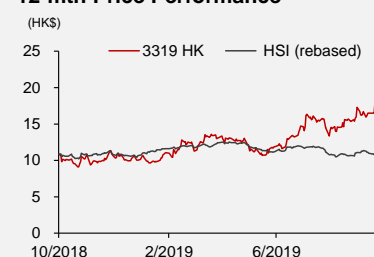
Source: HKEx

#### Share Performance

	Absolute	Relative
1-mth	22.8%	27.0%
3-mth	44.4%	60.9%
6-mth	62.2%	88.1%
12-mth	85.4%	90.8%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

**Auditor: PwC**

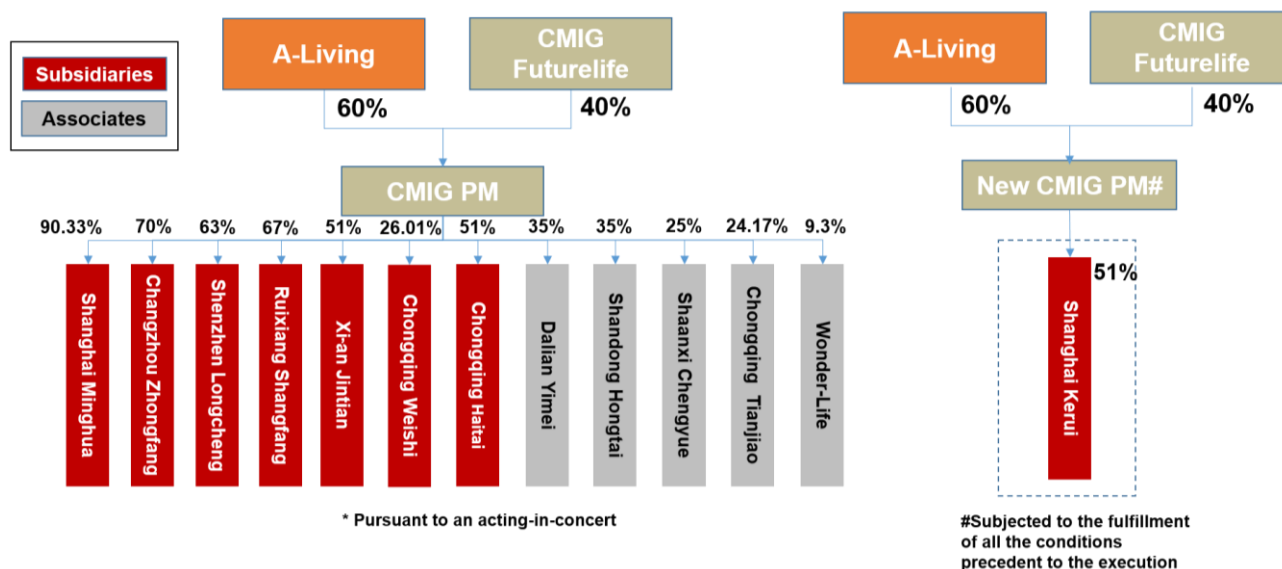
- **ST focus on consolidation; LT emphasis on organic growth.** As the target company is a large PM holding platform almost the same size as A-Living, we believe consolidation of CMIG PM/ New CMIG PM and A-Living is the Company's top priority in the near term. This is a challenging job which requires proper allocation of the group's resources, refined management structure to ensure operation efficiency, and unify business strategy among subsidiaries. We are optimistic on the consolidation as A-Living acquired the existing holding platform and the Company is well-experienced in M&A. The RMB2.05bn deal size accounted for approx. 47% of 1H19 cash on hand of RMB4.35bn and 191mn sq m acquisition area has already fulfilled A-Living's M&A target from 2019 to 2021 (140mn sq m in total). We expect A-Living will cooled down a while in M&A market. Furthermore, with enhanced capability of organic growth, we believe A-Living will switch its expansion strategy from M&A driven to organic growth.
- **Reaffirm top pick in property management sector.** For a long time A-Living's valuation is 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 compared to tier-1 PM names. But as the acquisition is announced and to be completed, we believe organic growth will play a more important and 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. These changes, in our view, will make A-Living a brand new PM platform. We believe A-Living deserves a re-rating. We reaffirm A-Living as our **Top Pick** in property management sector. We raise our FY19/20E earnings forecast by 09%/8.3% to RMB1,153mn/1,718mn. We roll over our P/E multiple to FY20 with 18x to derive our TP of HK\$25.89. **Maintain BUY.**

Figure 1: Overview of the acquisition

Target company	CMIG PM	New CMIG PM
Announcement date	26 September, 2019	26 September, 2019
Total consideration	RMB1.56 billion	12.5 x estimated and guaranteed profit* of the year of fulfilling all the conditions precedent to the execution x 60% (maximum amount not exceeding RMB500 million)
Percentage of acquired equity interests	60%	60%
Guaranteed net profit attributable to the owners	RMB208 million (2019)	N.A
Valuation (P/E ratio)	12.5x (2019)	12.5x (based on the net profit of the year of fulfilling all the conditions precedent to the execution)
Estimated time to complete	After approved by SGM, target to complete by 1Q of 2020	Upon fulfillment of all the conditions precedent to the execution
Overview of the target company	CMIG PM is one of the largest comprehensive property management services providers in China, serving multi-portfolios including residential, public, commercial and office buildings, with several brands awarded as Top100 property management companies. Its GFA under management is 259 million sq.m. with 1,761 projects.	Shanghai Kerui under New CMIG PM is a comprehensive property management company mainly focusing on residential and commercial buildings. It's one of the largest property management companies in Shanghai, ranking 21st among TOP100 property management companies in China. Its GFA under management reaches 36 million sq.m. with 229 projects.

Source: Company data

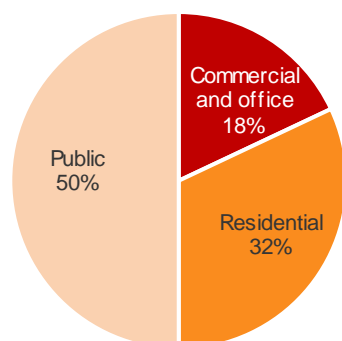
Figure 2: Structure upon completion



Source: Company data

Figure 3: Managed GFA of targeted Company

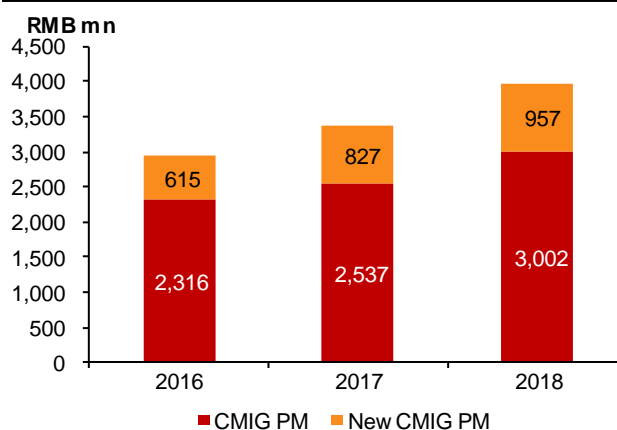
191 mn sq m total managed GFA



(Only calculating the GFA under management of subsidiaries)

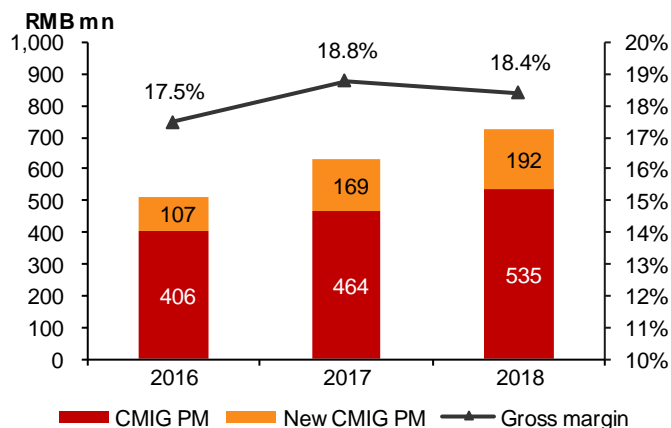
Source: Company data

Figure 4: Revenue of targeted Company



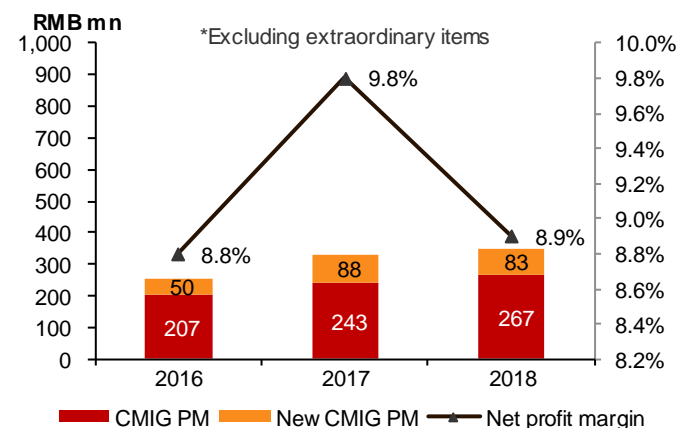
Source: Company data

Figure 5: Gross profit of targeted Company

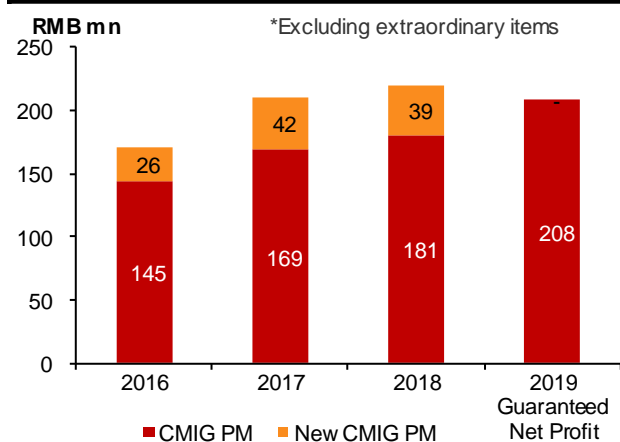


Source: Company data

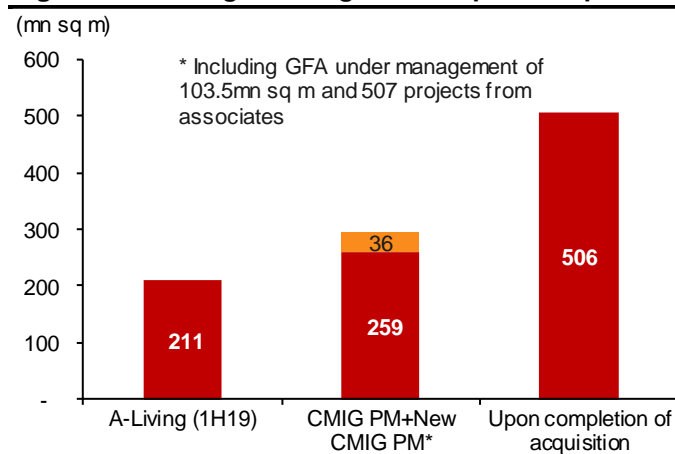
Figure 6: Net profit of targeted Company



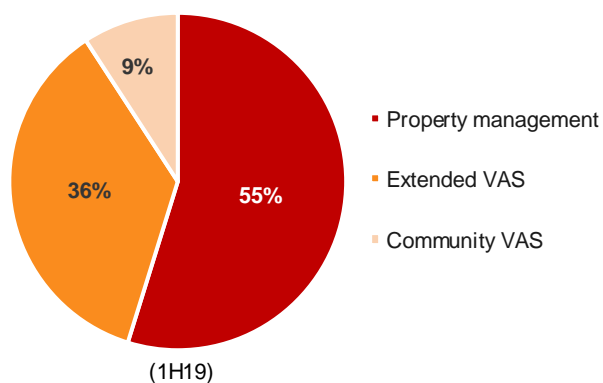
Source: Company data

**Figure 7: Net profit to owners of targeted Company**

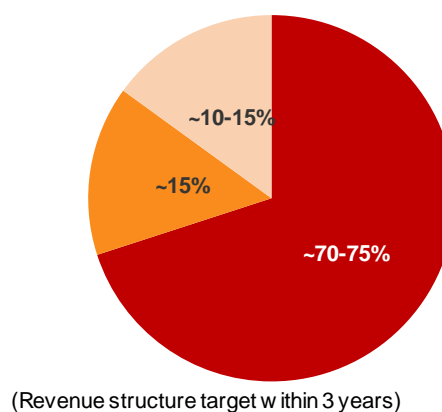
Source: Company data

**Figure 8: A-Living's managed GFA upon completion**

Source: Company data

**Figure 9: A-Living's revenue structure before acquisition**

Source: Company data

**Figure 10: A-Living's revenue structure after acquisition**

Source: Company data

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Turnover</b>	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)
<b>Gross profit</b>	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)
<b>EBIT</b>	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)	-	-
<b>PROFIT BEFORE TAX</b>	403	1,075	1,602	2,694	3,263
Income tax	(102)	(264)	(400)	(674)	(816)
<b>PROFIT FOR THE YEAR</b>	300	811	1,201	2,021	2,448
Non-controlling interests	(10)	(10)	(48)	(303)	(490)
<b>Net profit to shareholders</b>	290	801	1,153	1,718	1,958

### Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Non-current assets</b>	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
<b>Current assets</b>	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
<b>Total assets</b>	2,511	7,297	9,378	13,694	16,222
<b>Current liabilities</b>	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
<b>Non-current liabilities</b>	22	60	189	189	189
Borrowings	-	-	17	17	17
Others	22	60	172	172	172
<b>Total liabilities</b>	1,037	1,787	3,012	5,823	6,491
<b>Equity to shareholders</b>	1,472	5,422	6,230	7,432	8,803
Non-controlling interests	2	88	136	439	928
<b>Total Equity</b>	1,474	5,510	6,365	7,871	9,731

### Cash flow summary

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Profit before tax</b>	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)
<b>Net cash from operating</b>	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	-	-	-
<b>Net cash from investing</b>	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)
<b>Net cash from financing</b>	20	3,142	(299)	(515)	(587)
Net change in cash	357	3,913	248	1,020	883
<b>Cash at the beginning</b>	523	880	4,808	5,056	6,076
Exchange difference	-	15	-	-	-
<b>Cash at the end</b>	880	4,808	5,056	6,076	6,959

### Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Sales mix (%)</b>					
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
<b>Total</b>	100	100	100	100	100
<b>Profit &amp; loss ratios (%)</b>					
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
<b>Growth (%)</b>					
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
<b>Balance sheet ratios</b>					
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
<b>Returns (%)</b>					
ROE	19.7	14.8	18.5	23.1	22.2
ROA	12.0	11.1	12.8	14.8	15.1
<b>Per share</b>					
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

Source: Company data, CMBIS estimates

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