

A-Living (3319 HK)

Entering the next phase

A-Living posted solid 1H20 results as revenue and net attributable profit increased by 78.5% to RMB 4,002mn and 40.0% YoY to RMB 758mn respectively, mainly thanks to consolidation of CMIG PM acquisition. The Company outlined revenue targets of 10%/20%/30% in 2021E/22E/23E for its newly-announced city services segment, and we consider the new segment to be a synergistic extension to the Company's public-project heavy portfolio. Overall, we reaffirm our view of A-Living to be among the first tier of property management companies, and thus maintain TP of HK\$60.7. Maintain BUY.

- Solid earnings growth driven by consolidation of CMIG acquisition.** In 1H20, revenue and post-tax profit increased by 78.5% and 53.6% YoY, respectively, to RMB 4,002mn and RMB 873mn, of which CMIG PM contributed RMB 1,112mn and RMB 120mn. GFA under management grew by 177mn sq m in 1H20 to 353mn sq m. In terms of business segments, both basic property management and property owners VAS grew considerably at 113.4% and 105.0% YoY, respectively. Extended VAS took a hit in 1H20 due to COVID-19 impact, growing at 18.8% YoY.
- Transition to organic growth-oriented strategy to match sector leaders.** In 1H20, the Company posted "organic" growth (excl. CMIG) in revenue and post-tax profit of 28.9% and 32.5% YoY, respectively. Transition to an organic growth-focused strategy is not only an expected step after the CMIG PM acquisition, but also a necessary one in order to match the valuation of current sector leaders. We are positive on the future strength A-Living's capacity for organic expansion as the Company establishes itself as a property management group offering comprehensive services.
- New city services a natural extension of vast public property GFA.** The Company announced its target for the new city services segment to reach 10%/20%/30% of revenue in 2021E/22E/23E, respectively. The new segment will mainly include public sanitation, maintenance of public facilities, and other environmental and urban management services. A-Living has been making a sustained effort to accumulate public projects, which has exceeded residential properties in 1H20 as the largest property type in terms of GFA under management, making up 44.4% of total (compared to 35.1% as of YE19). We consider the city services business to be an important way for A-Living to reap the potential of its managed public properties.
- Forecast and TP unchanged; maintain BUY.** We maintain our forecast unchanged, and maintain TP of \$60.7 equivalent to 34.7x 2021E P/E. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	3,377	5,127	11,086	13,707	16,084
YoY growth (%)	91.8	51.8	116.2	23.7	17.3
Net income (RMB mn)	801	1,231	1,739	2,091	2,425
EPS (RMB)	0.62	0.92	1.30	1.57	1.82
YoY growth (%)	77.1	48.9	41.3	20.2	16.0
Consensus EPS (RMB)	N.A.	N.A.	1.30	1.69	2.15
P/E (x)	61.3	41.2	29.2	24.3	20.9
P/B (x)	12.0	11.4	11.8	9.8	8.2
Yield (%)	0.8	1.2	1.7	2.1	2.4
ROE (%)	14.8	19.9	24.6	25.8	26.0
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$60.70
(Previous TP)	HK\$60.70)
Up/Downside	+43.2%
Current Price	HK\$42.40

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	56,533
Avg 3 mths t/o (HK\$ mn)	200
52w High/Low (HK\$)	48.55/ 14.24
Total Issued Shares (mn)	1,333
Source: Bloomberg	

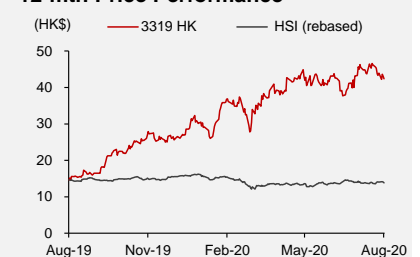
Shareholding Structure

Agile	54.0%
Greenland Holdings	7.5%
Free float	38.5%
Source: HKEx	

Share Performance

	Absolute	Relative
1-mth	-0.3%	-0.7%
3-mth	-0.1%	-3.3%
6-mth	16.8%	28.3%
12-mth	195.7%	208.8%
Source: Bloomberg		

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

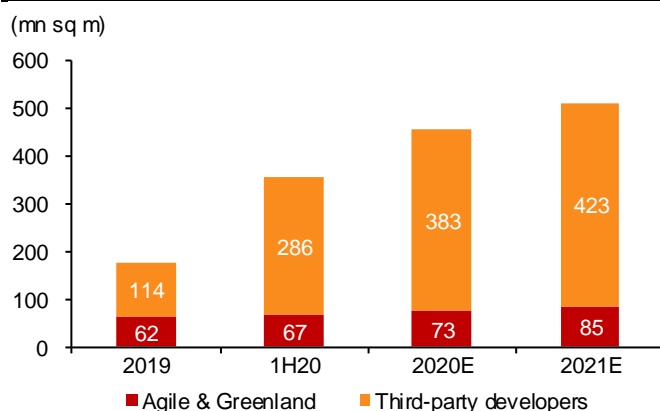
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Figure 1: 2020 interim results

(RMB mn)	1H20	1H19	YoY (%)	Remark
Revenue	4,002	2,241	78.5%	
Property management services	2,620	1,227	113.4%	GFA under management increased by 100.1% to 353.4mn sq m in 1H20
Extended VAS	959	808	18.7%	COVID-19 impact
Property owners VAS	423	206	105.2%	
Cost of sales	(2,726)	(1,412)	93.1%	
Gross Profit	1,275	829	53.8%	Gross margin dropped 5.1% to 31.9% after consolidation of CMIG acquisition
Other income	95	63	49.5%	
Selling and marketing expenses	(29)	(18)	59.5%	
Administrative expenses	(221)	(125)	77.2%	
EBIT	1,120	750	49.4%	
Finance cost	(20)	(2)	971.6%	
Share from associates and JVs	22	6	277.8%	
Exceptional	20	(3)	-686.2%	
PROFIT BEFORE TAX	1,141	750	52.0%	
Income tax	(268)	(182)	47.1%	
PROFIT FOR THE YEAR	873	568	53.6%	
Non-controlling interest	(115)	(27)	325.5%	
Net profit attributable to shareholders	758	541	40.0%	

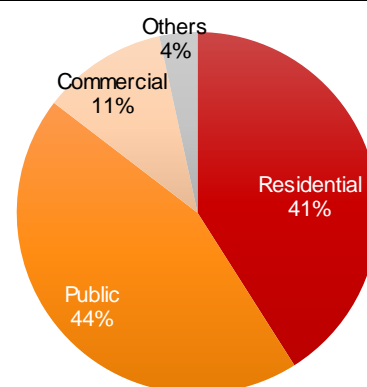
Source: Company data, CMBIS

Figure 2: GFA under management



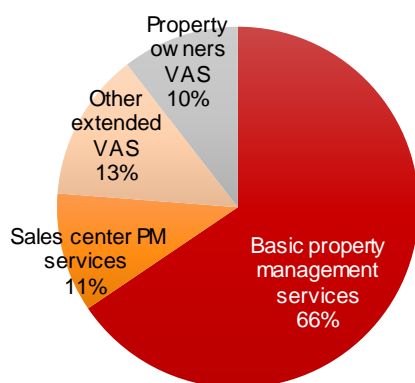
Source: Company data, CMBIS estimates

Figure 3: GFA under mgmt. mix by property type



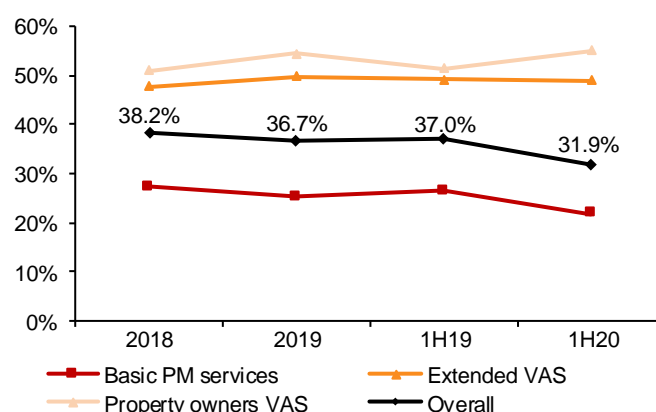
Source: Company data, CMBIS

Figure 4: Revenue mix in 1H20



Source: Company data, CMBIS

Figure 5: Gross margin



Source: Company data, CMBIS

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Turnover	3,377	5,127	11,086	13,707	16,084
Property mgmt services	1,625	2,830	8,640	10,516	11,871
Extended VAS	1,463	1,812	1,935	2,371	2,987
Community VAS	289	485	511	820	1,226
Cost of sales	(2,087)	(3,244)	(7,832)	(9,755)	(11,428)
Gross profit	1,290	1,883	3,253	3,953	4,655
Other income/expense, net	100	131	155	176	150
Selling & marketing expenses	(46)	(43)	(78)	(96)	(113)
Administrative Expenses	(299)	(307)	(665)	(822)	(965)
EBIT	1,045	1,664	2,666	3,210	3,728
Share from associates	-	23	29	30	30
Finance costs	(1)	(16)	(3)	(4)	(4)
Exceptional	31	24	-	-	-
PROFIT BEFORE TAX	1,075	1,694	2,692	3,236	3,754
Income tax	(264)	(403)	(646)	(777)	(901)
PROFIT FOR THE YEAR	811	1,292	2,046	2,460	2,853
Non-controlling interests	(10)	(61)	(307)	(369)	(428)
Net profit to shareholders	801	1,231	1,739	2,091	2,425

Cash flow summary

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Profit before tax	1,075	1,694	2,692	3,236	3,754
D&A, impairment	33	19	20	20	20
Change in working capital	(51)	(24)	(103)	(97)	(124)
Others	(174)	(89)	(675)	(807)	(931)
Net cash from operating	883	1,600	1,933	2,353	2,719
Capex	(20)	(803)	(30)	(30)	(30)
Associated companies	(107)	(567)	(1,000)	(200)	(200)
Others	14	(405)	-	-	-
Net cash from investing	(112)	(1,775)	(1,030)	(230)	(230)
Equity raised	3,314	-	-	-	-
Change of debts	(32)	(27)	(1)	1	1
Others	(141)	(400)	(869)	(1,045)	(1,212)
Net cash from financing	3,142	(426)	(871)	(1,044)	(1,211)
Net change in cash	3,913	(601)	33	1,079	1,277
Cash at the beginning	880	4,808	4,207	4,240	5,318
Exchange difference	15	1	1	2	3
Cash at the end	4,808	4,207	4,241	5,320	6,599

Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Sales mix (%)					
Property management services	48.1	55.2	77.9	76.7	73.8
Extended VAS	43.3	35.3	17.5	17.3	18.6
Community VAS	8.6	9.5	4.6	6.0	7.6
Total	100	100	100	100	100
Profit & loss ratios (%)					
Gross margin	38.2	36.7	29.3	28.8	28.9
EBIT margin	30.9	32.4	24.0	23.4	23.2
Net margin	23.7	24.0	15.7	15.3	15.1
Effective tax rate	24.6	23.8	24.0	24.0	24.0
Growth (%)					
Revenue	91.8	51.8	116.2	23.7	17.3
Gross profit	118.4	46.0	72.8	21.5	17.8
EBIT	162.2	59.2	60.2	20.4	16.1
Net profit	176.5	53.6	41.3	20.2	16.0
Balance sheet ratios					
Current ratio (x)	2.1	2.0	2.0	2.0	3.0
Receivable turnover days	126	156	156	156	156
Payables turnover days	204	196	196	196	196
Inventory turnover days	3	1	1	1	1
Net debt / total equity ratio (%)	net	net	net	net	net
Returns (%)					
ROE	14.8	19.9	24.6	25.8	26.0
ROA	11.1	13.8	15.7	15.9	15.8
Per share					
EPS (RMB)	0.62	0.92	1.30	1.57	1.82
DPS (RMB)	0.30	0.45	0.65	0.78	0.91
BVPS (RMB)	3.16	3.33	3.23	3.86	4.62

Balance sheet

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets	1,308	2,533	3,572	3,812	4,052
Property, plant & equipment	80	159	169	179	189
Goodwill	1,045	1,371	2,371	2,571	2,771
Others	182	1,003	1,032	1,062	1,092
Current assets	5,989	6,855	9,449	11,654	13,952
Inventories	15	12	30	37	44
Trade and other receivables	1,165	2,189	4,733	5,853	6,868
Cash and cash equivalents	4,808	4,207	4,240	5,318	6,596
Others	1	446	446	446	446
Total assets	7,297	9,388	13,021	15,466	18,004
Current liabilities	1,726	2,690	5,148	6,178	7,074
Borrowings	-	28	27	27	27
Trade and other payables	1,169	1,738	4,197	5,227	6,124
Others	557	924	924	924	924
Non-current liabilities	60	192	191	192	193
Borrowings	-	19	18	19	20
Others	60	173	173	173	173
Total liabilities	1,787	2,882	5,339	6,370	7,268
Equity to shareholders	5,422	6,191	7,060	8,106	9,318
Non-controlling interests	88	315	622	991	1,419
Total Equity	5,510	6,506	7,682	9,096	10,737

Source: Company data, CMBIS estimates

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