

# A-Living (3319 HK)

## Strong execution needed for its ambitious plan

A-Living delivered an in-line 2020 results with core earnings up 43% YoY to RMB1.8bn. Management guided 40% revenue and earnings CAGR in 2020-23E which we think is achievable based on its aggressive M&A. However, we remain cautious on its seemingly ambitious plan to build two RMB100bn-worth business segments – PM (incl. City Services) and VAS given growth slowdown in managed GFA, relatively lower profitability of city services and unproven track record of VAS. We think a strong execution would be needed to achieve these goals. Maintain Hold rating.

- 2020E results in line with profit alerts and our estimates.** The core net profits in 2020 came at RMB1.8bn (+43% YoY), in line. Total revenue grew 100% YoY to RMB10.3bn, mainly driven by fast growth in managed GFA (+112% to 3.7bn sq m) and Community VAS (+117% YoY) from low base. GPM declined by 7.7ppt YoY to 29% across all segments (VAS to non-property owners declined the most by 9.7ppt). As a result, Core EPS grew 44% YoY to RMB1.35/share and the Company declared RMB0.52/share dividend, which is equivalent to 40% dividend payout ratio, down from 48% in 2019.
- Management targets a promising outlook for city services after announcement of five cleaning Co. acquisitions.** Management guided it has obtained a strong contract pipeline for City services worth annualized RMB2bn revenue. To further penetrate this area, it has also acquired five cleaning companies with a total consideration of RMB1.17bn cash at a 2021E PE of ~10x. They may contribute another attributable revenue of RMB1bn in 2021E with average NPM of 12.5%. We admit that this segment can reach sizable however remain cautious as 1) the relatively lower profitability compared to other segments. 2) Some cleaning business could be asset heavy. 3) It is defensive in nature so may not be the fuel for rerating.
- Ambitious plan but a strong execution is needed.** During the conference call, the Company mentioned to build two platforms worth RMB100bn each – 1) PM + City Services; 2) Community VAS. On the first segment, we think increase in managed GFA would gradually slow down due to high base and fierce competition (21% CAGR to reach 550mn sq m in 2022E) so the key focus would be the city services, which still faces profitability uncertainty and business model exploration. As for the latter one, the contribution of Community VAS was only 10% in 2020 and it takes time to grow and build up.
- Earning and TP change:** We revise up 2021/22E earnings by 20-40% mainly reflecting the M&A in city services segment. However due to the low profitability of city services and uncertainty in M&A, we lower the target 2022E PE multiple to 11x (previously 15x) and derive TP of HK\$34.23. Maintain Hold.

### Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	5,127	10,026	15,819	21,291	27,320
YoY growth (%)	51.8	95.5	57.8	34.6	28.3
Net income (RMB mn)	1,231	1,754	2,584	3,450	4,492
EPS (RMB)	0.92	1.32	1.94	2.59	3.37
YoY growth (%)	48.9	42.5	47.3	33.5	30.2
Consensus EPS (RMB)	0.92	1.30	1.71	2.16	3.16
P/E (x)	34.3	24.0	16.3	12.2	9.4
P/B (x)	8.9	7.6	5.9	4.4	3.3
Yield (%)	1.4	1.6	2.5	3.3	4.3
ROE (%)	19.9	23.9	28.7	30.4	31.4
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

### HOLD (Maintain)

Target Price	HK\$34.23
(Previous TP	HK\$31.66)
Up/Downside	+9.0%
Current Price	HK\$31.40

### China Property Service Sector

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### Stock Data

Mkt Cap (HK\$ mn)	41,867
Avg 3 mths t/o (HK\$ mn)	172
52w High/Low (HK\$)	48.55/ 26.75
Total Issued Shares (mn)	1,333
Source: Bloomberg	

### Shareholding Structure

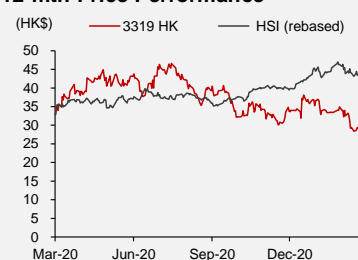
Agile	54.0%
Greenland Holdings	7.5%
Free float	38.5%
Source: HKEx	

### Share Performance

	Absolute	Relative
1-mth	-16.7%	-12.0%
3-mth	-16.4%	-24.1%
6-mth	-26.1%	-39.0%
12-mth	-14.4%	-32.7%

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

Auditor: PwC

**Figure 1: 2020 results summary**

RMB mn	2019	2020	YoY	CMBI Est	Diff%
<b>Revenue</b>	<b>5,127</b>	<b>10,261</b>	<b>100%</b>	<b>10380</b>	<b>-1%</b>
- PM	2,829	6,482	129%	7374	-12%
- VAS to non-prop owners	1,812	2,491	38%	2145	16%
- Community VAS	485	1,053	117%	860	22%
<b>Gross Profits</b>	<b>1,883</b>	<b>2,973</b>	<b>58%</b>	<b>3139</b>	<b>-5%</b>
Net profits	1,231	1,754	43%	1767	-1%
<b>Core profits</b>	<b>1,255</b>	<b>1,800</b>	<b>43%</b>	<b>1767</b>	<b>2%</b>
EPS (RMB)	0.92	1.32	43%	1.33	-1%
Core EPS (RMB)	0.94	1.35	44%	1.33	2%
DPS (RMB)	0.45	0.52	NA	0.66	-22%
<b>Margins &amp; GFA</b>	<b>2019</b>	<b>2020</b>	<b>YoY</b>	<b>CMBI Est</b>	<b>Diff%</b>
GP Margin	36.7%	29.0%	-7.7ppt	30.2%	-1.2ppt
Core Net Margin	24.5%	17.5%	-7.0ppt	17.0%	-0.5ppt
Managed GFA (mn sqm)	176.6	374.8	112%	47.8	684%
Contracted GFA (mn sqm)	298.8	522.6	75%	72	626%

Source: Company data, CMBIS estimates

**Figure 2: Earnings change**

RMB mn	New		Old		Diff (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
<b>Revenue</b>	15,819	21,291	12,857	15,496	23.0%	37.4%
<b>Gross Profit</b>	4,480	5,980	3,672	4,333	22.0%	38.0%
<b>Operating profit</b>	3,540	4,691	2,987	3,445	18.5%	36.2%
<b>Net profit</b>	2,530	3,341	2,029	2,336	24.7%	43.1%
<b>EPS (RMB)</b>	1.9	2.5	1.5	1.8	24.7%	43.1%
<b>Gross Margin</b>	28.3%	28.1%	28.6%	28.0%	-0.2ppts	0.1ppts
<b>Operating Margin</b>	22.4%	22.0%	23.2%	22.2%	-0.9ppts	-0.2ppts
<b>Net Margin</b>	16.0%	15.7%	15.8%	15.1%	0.2ppts	0.6ppts

Source: CMBIS estimates

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY19A	FY20E	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>5,127</b>	<b>10,026</b>	<b>15,819</b>	<b>21,291</b>	<b>27,320</b>
Property management services	2,830	6,482	9,275	11,432	13,156
Extended VAS	1,812	2,491	3,239	4,048	4,858
Community VAS	485	1,053	1,761	2,721	4,055
City Services			1,544	3,089	5,251
Cost of sales	(3,244)	(7,053)	(11,261)	(15,156)	(19,334)
<b>Gross profit</b>	<b>1,883</b>	<b>2,973</b>	<b>4,558</b>	<b>6,135</b>	<b>7,987</b>
<b>Other income</b>	<b>131</b>	<b>199</b>	<b>131</b>	<b>131</b>	<b>131</b>
Selling and marketing	(43)	(77)	(122)	(164)	(210)
Administrative expenses	(307)	(646)	(949)	(1,25)	(1,58)
<b>Operating profit</b>	<b>1,664</b>	<b>2,449</b>	<b>3,618</b>	<b>4,846</b>	<b>6,323</b>
JV & associates	23	62	51	51	51
Finance cost	(16)	(40)	(4)	(4)	(4)
Exceptional	24	17	-	-	-
<b>Pre-tax profit</b>	<b>1,694</b>	<b>2,488</b>	<b>3,665</b>	<b>4,893</b>	<b>6,370</b>
Income tax	(403)	(515)	(759)	(1,01)	(1,31)
<b>Profit for the year</b>	<b>1,292</b>	<b>1,973</b>	<b>2,906</b>	<b>3,880</b>	<b>5,051</b>
Non-controlling interest	(61)	(218)	(322)	(429)	(559)
<b>Net profit to shareholders</b>	<b>1,231</b>	<b>1,754</b>	<b>2,584</b>	<b>3,450</b>	<b>4,492</b>

### Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20E	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>2,564</b>	<b>4,875</b>	<b>5,189</b>	<b>5,650</b>	<b>6,116</b>
PP&E	159	255	179	189	202
Goodwill	1,371	2,182	2,382	2,582	2,783
Other intangible assets	384	961	1,100	1,300	1,500
Others	649	1,477	1,528	1,579	1,631
<b>Current assets</b>	<b>6,824</b>	<b>9,100</b>	<b>13,220</b>	<b>17,605</b>	<b>22,897</b>
Cash and cash equivalents	4,207	5,057	5,899	7,966	10,704
Trade receivables	2,158	3,406	6,659	8,962	11,501
Others	458	638	662	676	692
<b>Total Asset</b>	<b>9,388</b>	<b>13,975</b>	<b>18,409</b>	<b>23,255</b>	<b>29,013</b>
<b>Current liabilities</b>	<b>2,690</b>	<b>4,865</b>	<b>7,319</b>	<b>9,406</b>	<b>11,645</b>
Trade and other payables	1,738	3,371	6,034	8,121	10,360
Contract liabilities	614	804	804	804	804
Others	338	690	481	481	482
<b>Non-current liabilities</b>	<b>192</b>	<b>452</b>	<b>452</b>	<b>452</b>	<b>452</b>
Deferred tax liabilities	84	225	225	225	225
Others	108	227	227	227	227
<b>Total liabilities</b>	<b>2,882</b>	<b>5,318</b>	<b>7,771</b>	<b>9,858</b>	<b>12,098</b>
<b>Shareholders' equity</b>	<b>6,191</b>	<b>7,355</b>	<b>9,013</b>	<b>11,343</b>	<b>14,303</b>
Non-controlling interests	315	1,303	1,624	2,054	2,613
<b>Total Equity</b>	<b>6,506</b>	<b>8,657</b>	<b>10,637</b>	<b>13,397</b>	<b>16,915</b>

Source: Company data, CMBIS estimates

### Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20E	FY21E	FY22E	FY23E
<b>Profit before tax</b>	<b>1,694</b>	<b>2,488</b>	<b>3,665</b>	<b>4,893</b>	<b>6,370</b>
D&A	90	70	73	77	77
Change in working capital	138	379	(614)	(231)	(316)
Income tax paid	(315)	(515)	(759)	(1,013)	(1,319)
Others	(6)	(62)	(51)	(51)	(51)
<b>Cash flow from operating</b>	<b>1,600</b>	<b>2,359</b>	<b>2,314</b>	<b>3,674</b>	<b>4,761</b>
CAPEX	(15)	(30)	(30)	(30)	(31)
Others	(1,760)	(1,000)	(200)	(200)	(201)
<b>Cash flow from investing</b>	<b>(1,775)</b>	<b>(1,030)</b>	<b>(230)</b>	<b>(230)</b>	<b>(232)</b>
Equity raised	-	-	-	-	-
Change of debts	(27)	212	(210)	-	1
Dividends paid	(400)	(693)	(1,034)	(1,380)	(1,797)
Others	0	-	-	-	-
<b>Cash flow from financing</b>	<b>(426)</b>	<b>(481)</b>	<b>(1,243)</b>	<b>(1,380)</b>	<b>(1,796)</b>
<b>Net change in cash</b>	<b>(601)</b>	<b>848</b>	<b>840</b>	<b>2,064</b>	<b>2,734</b>
Cash at the beginning of the year	4,808	4,207	5,057	5,899	7,966
FX differences	1	1	2	3	4
<b>Cash at the end of the year</b>	<b>4,207</b>	<b>5,057</b>	<b>5,899</b>	<b>7,966</b>	<b>10,704</b>

### Key ratios

YE 31 Dec	FY19A	FY20E	FY21E	FY22E	FY23E
<b>Sales mix (%)</b>					
Property management services	55.2	64.7	58.6	53.7	48.2
Extended VAS	35.3	24.8	20.5	19.0	17.8
Community VAS	9.5	10.5	11.1	12.8	14.8
City Services	0.0	0.0	9.8	14.5	19.2
Total	100.0	100.0	90.2	85.5	80.8
<b>Profit &amp; loss ratios (%)</b>					
Gross margin	36.7	29.7	28.8	28.8	29.2
Operating margin	32.4	24.4	22.9	22.8	23.1
Net margin	24.0	17.5	16.3	16.2	16.4
Effective tax rate	23.8	20.7	20.7	20.7	20.7
<b>Growth (%)</b>					
Revenue	51.8	95.5	57.8	34.6	28.3
Gross profit	46.0	57.9	53.3	34.6	30.2
Operating profit	59.2	47.2	47.7	33.9	30.5
Net profit	53.6	42.5	47.3	33.5	30.2
<b>Balance sheet ratios</b>					
Current ratio (x)	2.5	1.9	1.8	1.9	2.0
Receivable turnover days	154	154	154	154	154
Payables turnover days	196	196	196	196	196
Net debt / total equity ratio (%)	Net	Net	Net	Net	Net
<b>Returns (%)</b>					
ROE	19.9	23.9	28.7	30.4	31.4
ROA	13.1	12.6	14.0	14.8	15.5
<b>Per share</b>					
EPS (RMB)	0.92	1.32	1.94	2.59	3.37
DPS (RMB)	0.45	0.52	0.78	1.04	1.35
BVPS (RMB)	3.56	4.14	5.37	7.14	9.47

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