

# A-Living (3319 HK)

## Positive profit alert and new business

A-Living announced that its profit after tax and net profit attributable to the shareholders are expected to increase more than 50% and 35% respectively in 1H20. Meanwhile, the Company also proposed to change the company name from "A-Living Services" to "A-Living Smart City Services". We maintain our profit forecast unchanged but lift TP from HK\$41.53 to HK\$60.7, which is equivalent to 34.7x 2021E P/E or average of Top 3. Maintain BUY recommendation.

- **Expect to earn more than RMB730mn in 1H20.** In 1H19, revenue and net profit attributable to shareholders amounted to RMB2,241mn and RMB541mn. The Company announced that net profit attributable to shareholders would grow more than 35% in 1H20. In other words, net profit attributable to shareholders is expected to be more than RMB730mn in 1H20. The rise in net profit was mainly attributable to the consolidation of CMIG Futurelife Property Management acquisitions that increase managed GFA as well as improvement of overall operational efficiency.
- **Commence the city services business.** Secondly, the Company proposed to change the company name to "A-Living Smart City Services Co. Ltd.". It is because the Company believed that city services has ample opportunity and established the fifth business segment, city services, which focuses on refined city management. By utilising technologies, management experience and resources advantages, A-Living will strive to enhance city management system and build itself as a comprehensive platform of intelligent city services.
- **H share full circulation.** A-Living also announced that it received a formal approval from CSRC for the H share full circulation and the issue of additional overseas listed foreign shares. The Company plans to convert domestic shares and unlisted foreign shares into H shares. Furthermore, it is allowed to issue no more than 86.7mn new H shares, which is valid for 12 months from 24 Jun 2020. If all new H shares are issued, A-Living may raise more than HK\$3bn that can help it explore new business.
- **Forecast unchanged but lift TP; maintain BUY.** We maintain our earnings forecast unchanged. We forecast net profit to surge by 41.3% to RMB1,739mn in 2020 and 20.2% to RMB2,091mn in 2021. Being the second largest property management company, A-Living is undervalued. We lift TP from HK\$41.53 to HK\$60.7, which is equivalent to 34.7x 2021E P/E or average of Top 3. Maintain BUY recommendation.

### 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)	66.0	44.4	31.4	26.1	22.5
P/B (x)	13.0	12.3	12.7	10.6	8.9
Yield (%)	0.7	1.1	1.6	1.9	2.2
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\$41.53**)  
 Up/Downside **+33.0%**  
 Current Price **HK\$45.65**

### 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)	60,867
Avg 3 mths t/o (HK\$ mn)	201
52w High/Low (HK\$)	46.00/ 12.41
Total Issued Shares (mn)	1,333
Source: Bloomberg	

#### Shareholding Structure

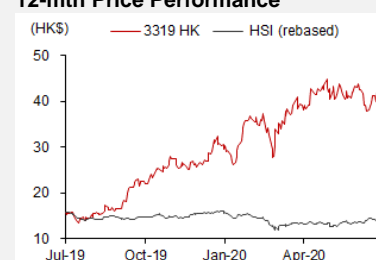
Agile	54.0%
Greenland Holdings	7.5%
Free float	38.5%
Source: HKEx	

#### Share Performance

	Absolute	Relative
1-mth	5.8%	1.7%
3-mth	20.1%	11.5%
6-mth	55.3%	69.5%
12-mth	183.5%	218.2%

Source: Bloomberg

#### 12-mth Price Performance



Source: Bloomberg

#### Auditor: PwC

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**Figure 1: 2020 interim results**

	1H19 (RMB mn)	1H20E (RMB mn)	Change (%)
Revenue	2,241	4,056	81.0%
Gross profit	829	1,280	54.4%
After tax profit	568	840	47.9%
Minority interests	-27	-82	203.7%
Net profit	541	758	40.1%
Gross margin	37.0%	31.6%	-5.4ppts
After tax margin	25.3%	20.7%	-4.6ppts
Net margin	24.1%	18.7%	-5.4ppts

Source: Company data, CMBIS estimates

**Figure 2: Valuation table**

Figure 1: Valuation table

Company	Ticker	Last price (HK\$)	Mkt Cap (HK\$ mn)	P/E	
				20E	21E
Large-size property management companies					
COUNTRY GARDEN S	6098 HK	43.95	121,274	47.7	36.6
A-LIVING SERVI-H	3319 HK	45.65	60,867	31.7	24.3
POLY PROPERTY -H	6049 HK	87.1	48,195	59.0	43.1
Average				46.1	34.7
Mid-size property management companies					
GREENTOWN SERVIC	2869 HK	10.9	35,065	45.5	35.1
CHINA OVERSEAS P	2669 HK	8.68	28,530	41.3	32.1
EVER SUNSHINE LI	1995 HK	15.28	25,524	58.6	38.2
S-ENJOY SERVICE	1755 HK	25.45	20,821	44.5	30.1
CENTRAL CHINA NE	9983 HK	10.16	12,649	30.5	19.8
POWERLONG COMMER	9909 HK	19.04	11,833	36.8	25.3
SICHUAN LANGUANG	2606 HK	54.1	9,635	14.6	11.0
TIMES NEIGHBORHO	9928 HK	12.66	12,479	46.9	27.1
COLOUR LIFE SERV	1778 HK	3.7	5,383	8.7	7.9
AOYUAN HEALTHY L	3662 HK	8.34	6,057	22.7	16.1
KAISA PROSPERITY	2168 HK	34.2	5,267	18.8	13.6
BINJIANG SERVICE	3316 HK	17.3	4,782	26.9	20.5
Average				33.0	23.1

Source: Bloomberg

## Financial Summary

### Income statement

YE 31 Dec (RMB mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Turnover</b>	<b>3,377</b>	<b>5,127</b>	<b>11,086</b>	<b>13,707</b>	<b>16,084</b>
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)
<b>Gross profit</b>	<b>1,290</b>	<b>1,883</b>	<b>3,253</b>	<b>3,953</b>	<b>4,655</b>
Other income/expense, net	100	131	155	176	150
Selling & marketing expenses	(46)	(43)	(78)	(96)	(113)
Administrative Expenses	(299)	(307)	(665)	(822)	(965)
<b>EBIT</b>	<b>1,045</b>	<b>1,664</b>	<b>2,666</b>	<b>3,210</b>	<b>3,728</b>
Share from associates	-	23	29	30	30
Finance costs	(1)	(16)	(3)	(4)	(4)
Exceptional	31	24	-	-	-
<b>PROFIT BEFORE TAX</b>	<b>1,075</b>	<b>1,694</b>	<b>2,692</b>	<b>3,236</b>	<b>3,754</b>
Income tax	(264)	(403)	(646)	(777)	(901)
<b>PROFIT FOR THE YEAR</b>	<b>811</b>	<b>1,292</b>	<b>2,046</b>	<b>2,460</b>	<b>2,853</b>
Non-controlling interests	(10)	(61)	(307)	(369)	(428)
<b>Net profit to shareholders</b>	<b>801</b>	<b>1,231</b>	<b>1,739</b>	<b>2,091</b>	<b>2,425</b>

### Cash flow summary

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

### Key ratios

YE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales mix (%)</b>					
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
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Profit &amp; loss ratios (%)</b>					
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
<b>Growth (%)</b>					
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
<b>Balance sheet ratios</b>					
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
<b>Returns (%)</b>					
ROE	14.8	19.9	24.6	25.8	26.0
ROA	11.1	13.8	15.7	15.9	15.8
<b>Per share</b>					
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
<b>Non-current assets</b>	<b>1,308</b>	<b>2,533</b>	<b>3,572</b>	<b>3,812</b>	<b>4,052</b>
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
<b>Current assets</b>	<b>5,989</b>	<b>6,855</b>	<b>9,449</b>	<b>11,654</b>	<b>13,952</b>
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
<b>Total assets</b>	<b>7,297</b>	<b>9,388</b>	<b>13,021</b>	<b>15,466</b>	<b>18,004</b>
<b>Current liabilities</b>	<b>1,726</b>	<b>2,690</b>	<b>5,148</b>	<b>6,178</b>	<b>7,074</b>
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
<b>Non-current liabilities</b>	<b>60</b>	<b>192</b>	<b>191</b>	<b>192</b>	<b>193</b>
Borrowings	-	19	18	19	20
Others	60	173	173	173	173
<b>Total liabilities</b>	<b>1,787</b>	<b>2,882</b>	<b>5,339</b>	<b>6,370</b>	<b>7,268</b>
<b>Equity to shareholders</b>	<b>5,422</b>	<b>6,191</b>	<b>7,060</b>	<b>8,106</b>	<b>9,318</b>
Non-controlling interests	88	315	622	991	1,419
<b>Total Equity</b>	<b>5,510</b>	<b>6,506</b>	<b>7,682</b>	<b>9,096</b>	<b>10,737</b>

Source: Company data, CMBIS estimates

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## CMB International Securities Limited

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

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