

A-Living (3319 HK)

Upbeat growth outlook for 2018

- FY17 core profit rose 88%YoY to RMB 302mn; net margin rose 3.5ppt YoY to 17.0%
- GFA under management jumped 56.5%YoY to 78mn sqm in 2017. Management targets to secure 72mn sqm of GFA from independent third parties via new project tendering
- VAS (value-added services) revenue to non-property owners soared 114%YoY to RMB 453mn in 2017 while VAS revenue to property owners increased 86%YoY to RMB102mn
- Maintain **BUY** with revised DCF-derived TP of HK\$16.30 (from HK\$14.60)

Third-party GFA to double again 2018. A-Living's FY17 core net profit (before IPO expenses) rose 88% YoY to RMB 302mn, in line with our forecast. Driven by increasing revenue from commercial projects, which represents 26.6% of total property management services revenue (2016: 2.5%), core net margin increased 3.5ppt YoY to 17.0% in FY17. GFA under management (revenue-bearing GFA) increased 56.5%YoY to 78mn sqm as of Dec 2017. In particular, GFA from independent third parties doubled from 16mn sqm in 2016 to 33mn in 2017. Management commented that each of the Group's 24 city-level companies is targeting to secure 3mn sqm of third-party contracted GFA in 2018, implying no less than 72mn sqm will be added through new project tendering. With the HK\$3.9bn IPO proceeds, the Group may consider secure more third-party GFA through M&A. Management said their acquisition targets are regional property management companies (PMC) with at least 10mn sqm of GFA under management, a net profit of RMB10mn, and a 10-12% net margin. These targets usually have a valuation of 10-12x P/E in the market.

Fast VAS growth to drive margin. A-Living's VAS revenue from non-property owners increased 114%YoY to RMB 453mn. In particular, revenue of property agency business, introduced in 2H17 reached RMB 100mn, representing 22.1% of the non-property-owners VAS revenue. As at Dec 2017, the Group had 62 property agency projects. VAS revenue from property owners also jumped 86% YoY to RMB 102mn. Management targets a property-owners VAS revenue/net profit of RMB 450mn/RMB135mn for 2018. Businesses under the VAS segment entail a much higher gross margin of 42-49% in FY17, compared to 26.9% to traditional property management services.

Maintain BUY with revised TP of HK\$ 16.30. Apart from continuous supply of new projects from its two major shareholders Agile (3883 HK) and Greenland (600606 CH), A-Living has proved itself a well-managed companies by delivering solid growth in third-party projects and VAS business. We revise upward our core net profit forecast by 6%/12% for 2018/19 and raise our TP to HK\$ 16.30 (from HK\$14.60), still based on a WACC of 9%, due to better-than-expected growth outlook. A-Living remains as our top pick in the China's PMC sector.

Risk factors: 1) Substantial amount of related-party transactions; 2) Reliance on shareholders for new projects; 3) Potential margin erosion due to M&As.

Results and Valuation

FY ended Dec 31	2016A	2017A	2018E	2019E	2020E
Revenue (RMB mn)	1,245	1,761	3,192	4,659	6,393
Chg (% YoY)	33.2	41.5	81.3	46.0	37.2
Core net profit (RMB mn)	161	302	691	1,021	1,426
Chg (% YoY)	147.3	80.3	138.4	47.8	39.7
Core EPS (RMB)	0.22	0.36	0.52	0.77	1.07
Chg (% YoY)	146.6	61.9	43.2	47.8	39.7
BVPS (RMB)	0.39	1.76	3.93	4.51	5.31
Chg (% YoY)	219.6	354.4	122.9	14.6	17.8
Core PE (x)	41.7	25.8	17.5	11.8	8.5
P/B (x)	24.0	5.3	2.4	2.1	1.7
ROE (%)	57.5	19.7	13.5	17.4	20.4
ROA (%)	8.5	11.5	10.3	12.4	13.9
DPS(RMB)	-	-	0.13	0.20	0.27
Yield (%)	-	-	1.43	2.12	2.93
Net gearing (%)	88.6	Net cash	Net cash	Net cash	Net cash

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 22, 2018

Rating: **BUY**

TP: **HK\$ 16.30**

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Share price (HK\$)	11.56
Est. share price return	45.3%
Est. dividend yield	1.4%
Est. total return	46.7%
Previous Rating & TP	BUY; HK\$14.6
Previous Report Date	19 Mar 2018

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	12.68/8.98
Issued shares (mn)	1,333
Issued H-shares (mn)	433
Market cap (HK\$ mn)	16,336
H-share Mkt cap (HK\$ mn)	5,274
3-mth avg daily turnover(HK\$ mn)	50.68
Major shareholder(s) (%)	
Agile	54%
Greenland	15%
Gongqingcheng	6%

Source(s): Bloomberg, ABCI Securities

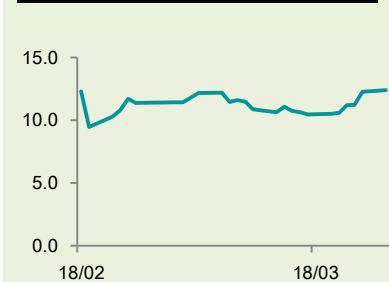
Share Performance (%)

	Absolute	Relative*
1-mth	7.0	5.5
3-mth	NA	NA
6-mth	NA	NA

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

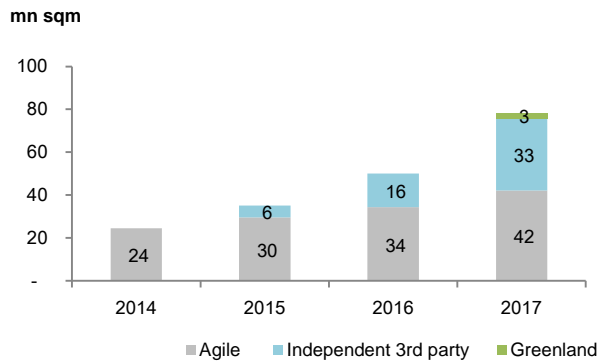
Share performance since IPO (HK\$)



Source(s): Bloomberg, ABCI Securities

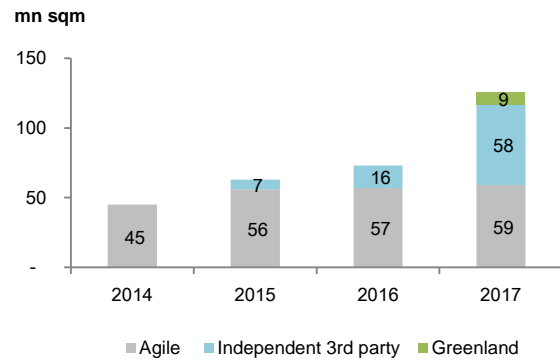


Exhibit 1: A-Living's GFA under management



Source(s): Company, ABCI Securities

Exhibit 2: A-Living's contracted GFA



Source(s): Company, ABCI Securities

Exhibit 3: A-Living's 2017 results

P&L	2017	2016	YoY Chg
	RMBmn	RMBmn	(%)
Revenue	1,761	1,245	41.5
Cost of Sales	(1,170)	(933)	25.4
Gross Profit	591	312	89.5
Gross Margin (%)	33.5	25.0	+8.5ppt
Selling and distribution costs	(33)	(19)	71.2
Administrative expense	(154)	(79)	96.0
EBIT	404	214	88.7
EBIT Margin (%)	22.9	17.2	+5.7ppt
Other income	11	5	137.3
Other expenses	(1)	(1)	(32.5)
Listing expenses and others	(16)	(0)	7,114.6
Finance income	53	86	
Finance cost	(49)	(71)	(38.4)
Profit before tax	403	232	73.8
Tax	(102)	(63)	63.4
Profit after tax	300	169	77.6
Minority Interest	(10)	(8)	NA
Net profit	290	161	80.3
Core profit	302	161	87.5
Core net margin	17.0%	13.6%	+3.5ppt

Source(s): Company, ABCI Securities

Balance sheet	Dec-17	Dec-16	YoY Chg
	RMBmn	RMBmn	(%)
Gross debt	-	795	(100)
Cash	880	526	67
Net debt	(880)	269	(427)
Net gearing (%)	NA	88.6	NA
By segment	FY17	FY16	YoY Chg
	RMBmn	RMBmn	(%)
Total revenue	1,761	1,245	41.5
- Property management services	1,206	978	23.3
- VAS to non-property owners	453	212	113.6
- VAS to property owners	102	55	86.4
Gross profit	591	312	89.5
- Property management services	325	244	33.2
- VAS to non-property owners	223	53	325.2
- VAS to property owners	42	15	176.3
Gross margin	33.5%	25.0%	+8.5ppt
- Property management services	26.9%	24.9%	+2.0ppt
- VAS to non-property owners	49.3%	24.8%	+24.5ppt
- VAS to property owners	41.7%	28.1%	+13.6ppt
Operating statistics	FY17	FY16	YoY Chg
GFA Under management	78.3	50.1	56.5
Contracted GFA	126.1	73.4	71.8
Average residential management fee	3.01	2.94	2.4

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

A-Living Services Co., Limited (3319 HK, BUY)

China's Property Management Sector

Mar 22, 2018

Financial statements

Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
Revenue	934	1,245	1,761	3,192	4,659	6,393
Direct costs	(786)	(933)	(1,170)	(2,107)	(3,122)	(4,285)
Gross Profit	149	312	591	1,085	1,537	2,109
Selling and marketing expenses	(9)	(19)	(33)	(36)	(41)	(47)
Administrative expenses	(52)	(79)	(154)	(169)	(201)	(240)
EBIT	88	214	404	880	1,294	1,821
Finance cost	(55)	(71)	(49)	-	-	-
Finance income	67	86	53	29	55	69
Other income/ (expenses)	(0)	3	10	12	12	12
Others one-off items	-	-	(16)	-	-	-
Profit before tax	99	232	403	921	1,361	1,902
Tax	(27)	(63)	(102)	(230)	(340)	(475)
Profit after tax	72	169	300	691	1,021	1,426
Minority interest	(7)	(8)	(10)	-	-	-
Reported net profit	65	161	290	691	1,021	1,426
Less: exceptional items	0	0	12	0	0	0
Core net profit	65	161	302	691	1,021	1,426
Per share						
Core EPS (RMB)	0.09	0.22	0.36	0.52	0.77	1.07
DPS (RMB)	-	-	-	0.13	0.19	0.27
Payout ratio (%)	0%	0%	0%	25%	25%	25%
BVPS (RMB)	0.12	0.39	1.76	3.93	4.51	5.31
Growth %						
Revenue	13.1%	33.2%	41.5%	81.3%	46.0%	37.2%
Gross Profit	50.6%	109.4%	89.5%	83.6%	41.7%	37.2%
EBIT	46.5%	142.2%	88.7%	117.9%	47.1%	40.7%
Core net profit	56.2%	147.3%	80.3%	138.4%	47.8%	39.7%
Margin %						
Gross margin	15.9%	25.0%	33.5%	34.0%	33.0%	33.0%
EBIT margin	9.5%	17.2%	22.9%	27.6%	27.8%	28.5%
Core net margin	7.0%	12.9%	16.5%	21.6%	21.9%	22.3%
Revenue breakdown						
Property management services	691	978	1,206	2,266	3,534	5,092
VAS to non-property owners	186	212	453	778	926	1,052
VAS to property owners	58	55	102	148	199	249
Total	934	1,245	1,761	3,192	4,659	6,393
Key assumptions						
Contracted GFA(mn sqm)	63.4	73.4	126.1	189.1	252.1	315.1
GFA under management (mn sqm)	35.0	50.1	78.3	114.9	157.2	207.8

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2014A-2019E)

As of Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
Current assets	594	1,179	1,399	5,733	7,269	9,246
Cash and restricted cash	208	526	880	4,942	6,103	7,623
Trade & other receivables	342	223	488	760	1,135	1,592
Loan and interest receivables due from related parties	11	405	13	13	13	13
Other current assets	33	24	17	17	17	17
Non-current assets	660	720	1,112	1,114	1,117	1,120
Property, plant & equipment	62	62	71	73	76	79
Other intangible assets	3	11	1,029	1,029	1,029	1,029
Loan and interest receivables due from related parties	586	631	0	0	0	0
Other non-current assets	8	17	12	12	12	12
Total Assets	1,254	1,899	2,511	6,847	8,386	10,366
Current Liabilities	709	1,000	1,015	1,577	2,349	3,259
Short term borrowings	144	200	0	0	0	0
Trade & other payables	529	761	952	1,514	2,287	3,197
Other current liabilities	36	39	62	62	62	62
Non-current liabilities	442	596	22	22	22	22
Long term borrowings	442	596	0	0	0	0
Deferred tax liabilities	0	0	22	22	22	22
Other non-current liabilities	0	0	0	0	0	0
Total Liabilities	1,151	1,595	1,037	1,599	2,371	3,282
Net Assets	103	303	1,474	5,248	6,014	7,084
Shareholders' Equity	87	280	1,472	5,246	6,012	7,082
Minority Interest	15	24	2	2	2	2
Total Equity	103	303	1,474	5,248	6,014	7,084
Key ratio						
Gross debt (RMB mn)	586	795	-	-	-	-
Net debt (RMB mn)	378	269	(880)	(4,942)	(6,103)	(7,623)
Net gearing (%)	368%	89%	-60%	-94%	-101%	-108%

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2019E)

As of Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
EBITDA	95	220	411	887	1,301	1,828
Change in Working Capital	(35)	192	(67)	290	398	453
Tax payment	(6)	(68)	(102)	(230)	(340)	(475)
Operating Cash flow	54	344	241	947	1,359	1,806
Purchase of PP&E	(3)	(6)	(10)	(10)	(10)	(10)
Loans repayments received from related parties	198	(450)	1,036	-	-	-
Interest received	67	97	53	29	55	69
Others	95	241	(947)	29	55	69
Investing Cash flow	290	(215)	79	19	45	59
Debt raised	-	1,078	-	-	-	-
Debt repaid	(198)	(877)	(942)	-	-	-
Interest expenses	(55)	(62)	(49)	-	-	-
Payment to shareholders	-	-	(60)	(223)	(255)	(357)
Others	(94)	51	1,087	3,318	12	12
Financing Cash flow	(346)	190	36	3,096	(243)	(345)
Net cash inflow/ (outflow)	(3)	319	357	4,062	1,161	1,520
Cash- beginning	207	204	523	880	4,942	6,103
Cash- year-end	204	523	880	4,942	6,103	7,622

Source(s): Company, ABCI Securities estimates

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return $- 6\% \leq$ Stock return $<$ Market return rate
Sell	Stock return $<$ Market return $- 6\%$

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility $<$ 1.5
Low	180 day volatility/180 day benchmark index volatility $<$ 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index. Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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