



## A-Living (3319 HK) Depressed valuation unjustified

- A-Living issued a positive profit alert - FY19 net profit would grow by no less than 45% YoY
- We believe CMIG's profit margin could be enhanced by broadening CVAS, better terms with subcontractors, and integration with A-Living's back office etc.
- Maintain **BUY** with revised SOTP-based TP of HK\$ 50.60 (from HK\$ 19.10)

**Positive profit alert.** In Feb 2020, A-Living announced its net profit attributable to the shareholders for FY19 are expected to record a significant increase of 45% or higher (i.e. at least RMB1161mn, based on FY18 net profit of RMB 801mn) mainly due to increase in GFA under management, VAS business, and effective control in administrative expenses. The positive profit alert is largely in line with our 50%YoY net profit growth estimate.

**Synergy to emerge with CMIG PM.** CMIG PM's overall gross margin was steady at 15%-16% for the past three years, which is much lower than A-Living's 37.0% in 1H19. PM services, which entails a lower margin as compared to VAS, represented 82.9% and 86.5% of total revenue in 2018 and 9M19. Net margin (before MI) was 6.4% in 2018 and 6.6% in 9M19, lower than the listed peer average of ~13%. We believe CMIG PM's margin can improve after integrating with A-Living through the broadening of community VAS, better terms with subcontractors, and integrating with A-Living's back offices.

**Greenland's stake disposal cast concerns on new project pipeline beyond 2022.** Greenland Group (600606 CH), as a strategic shareholder, is committed to providing 7mn sqm in GFA and another 3mn sqm in higher priority for A-Living to manage each year in 2018-22. However, after two rounds of stake disposal, Greenland's stake in A-Living has fallen from ~15% originally to ~7.5% at present. If we assume Greenland ceases to provide new projects in 2020-21, our core profit forecast would be reduced by 0.3% and 0.8% in 2020 and 2021 respectively.

**Valuation still looks attractive; maintain BUY with revised TP of HK\$ 50.60.** A-Living remains as our top pick given the acquisition of CMIG PM will boost GFA under management from 210mn sqm as at 1H19 to 464mn sqm; the Group is becoming the largest listed PMC by GFA. Also we expect significant synergy will emerge from cost-saving and public properties. We raise our 2020E and 2021E core profit forecasts by 1.4% and 10.6% to reflect the CMIG acquisition. Our SOTP-based TP is lifted to HK\$ 50.6 (from HK\$ 19.1) as we lower our WACC from 9% to 8% since the valuation of PMC sector has increased significantly over the last few months. A-Living is attractively priced at 26.2x 2020E P/E, implying a 29% discount to the peer average of 36.7x. Maintain **BUY**.

**Risk factors:** 1) Non-PM business, whose performance is more volatile than PM business, accounted for 61% of total gross profit in 1H19; 2) Increasing reliance on online sales by parent developer may affect agency business; 3) Post-M&A risks; 4) Project pipeline risk from Greenland

### Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (RMB mn)	1,761	3,377	5,278	9,059	12,946
Chg (% YoY)	41.5	91.8	56.3	71.7	42.9
Core net profit (RMB mn)*	302	778	1,198	1,701	2,371
Chg (% YoY)	80.3	176.5	49.5	42.0	39.4
Core EPS (RMB)	0.36	0.58	0.90	1.28	1.78
Chg (% YoY)	61.9	61.3	54.0	42.0	39.4
BVPS (RMB)	1.76	4.07	4.52	5.15	6.04
Chg (% YoY)	354.4	130.4	11.0	14.1	17.3
Core P/E (x)	92.4	57.29	37.19	26.19	18.79
P/B (x)	18.9	8.22	7.40	6.48	5.53
ROE (%)	19.7	14.8	19.9	24.8	29.4
ROA (%)	11.5	11.0	14.2	15.8	17.5
DPS(RMB)	-	0.30	0.45	0.64	0.89
Yield (%)	-	0.90	1.34	1.91	2.66
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

\* Excluding exceptional items such as exchange gains and listing expenses

\*\* RMB /HKD: 1.11

Source(s): Bloomberg, ABCI Securities estimates

## Company Report

Mar 6, 2020

Rating: **BUY**

TP: HK\$ 50.60

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Share price (HK\$)	37.40
Est. share price return	35.3%
Est. dividend yield	1.3%
Est. total return	36.6%
Previous Rating & TP	BUY; HK\$19.1
Previous Report Date	12 Aug 2019

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	38.00/10.362
Issued shares (mn)	1,333
Issued H-shares (mn)	433
Market cap (HK\$ mn)	49,854
H-share Mkt cap (HK\$ mn)	16,194
3-mth avg daily turnover(HK\$ mn)	176.37
Major shareholder(s) (%)	
Agile	54.0%
Greenland	7.5%
Gongqingcheng	6.0%

Source(s): Bloomberg, ABCI Securities

### Share Performance (%)

	Absolute	Relative*
1-mth	32.4	33.9
3-mth	33.7	34.4
6-mth	122.8	126.7

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### Share performance (HK\$)



Source(s): Bloomberg, ABCI Securities

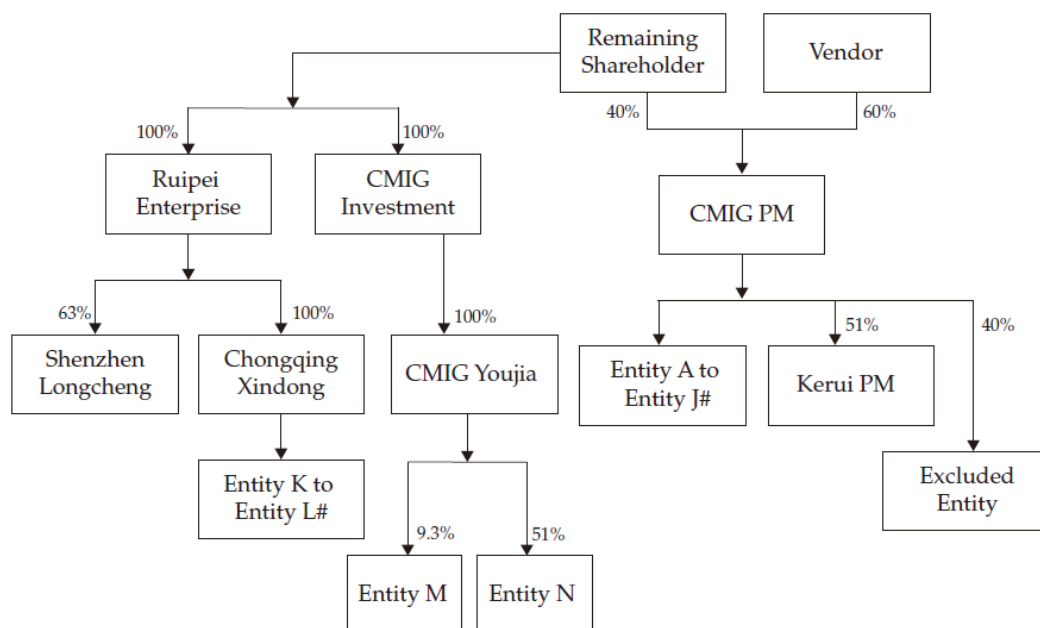


## Analysis of CMIG acquisition

### Deal structure

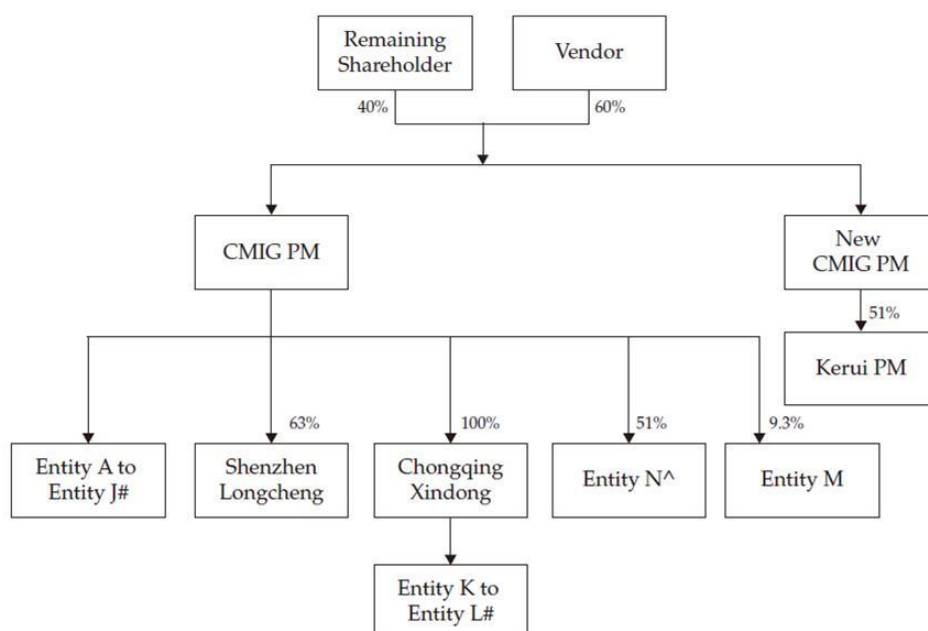
- Acquiring: 1) a 60% stake in **CMIG PM** at a fixed consideration of RMB 1.56bn, based on 12.5x 2019E guaranteed profit of RMB 208mn; and 2) a 60% stake in **new CMIG PM** at variable consideration not higher than RMB500mn, also based on 12.5x of estimated profit of new CMIG PM

Exhibit 1: Shareholding structure of the CMIG PM Group before the reorganisation



Source(s): Company, ABCI Securities

Exhibit 2: Shareholding structure of the CMIG PM Group after the reorganisation



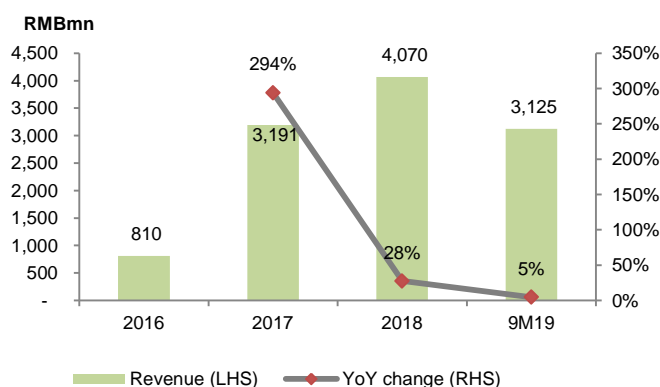
Source(s): Company, ABCI Securities



**Key operating and financial statistics (extract from the circular dated Feb 24, 2020 and announcement on Sep 26, 2019)**

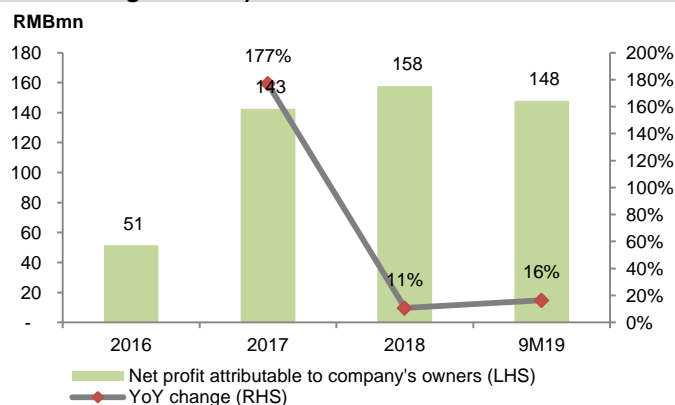
- **Significant non-wholly owned GFA under management:** For the year ended Dec 31, 2018, the total GFA under management of the subsidiaries of the CMIG PM Group was ~154mn sqm and that of their associates was ~100 mn sqm (1,771 projects in total for subsidiaries and associates). We estimate an attributable GFA under management of ~120mn sqm based on the total GFA under management of 254mn sqm and a 48% average stake in projects owned. Contract renewal rate was high at 95% during 2016-9M19.
- **Sharp revenue and profit jump in 2017 on M&As:** Revenue figures of CMIG PM (before reorganization) jumped 294%YoY in 2017 but slowed to 28%YoY in 2018 and 5% YoY in 9M19. We believe the impressive growth in 2017 was due to the significant acquisitions during the year, as intangible assets soared 86%YoY to RMB 1639mn in 2017. Net profit also soared 177% YoY in 2017, 11% YoY in 2018 and 16% YoY in 9M19.

**Exhibit 3: CMIG PM's revenue (before reorganization)**



Source(s): Company, ABCI Securities

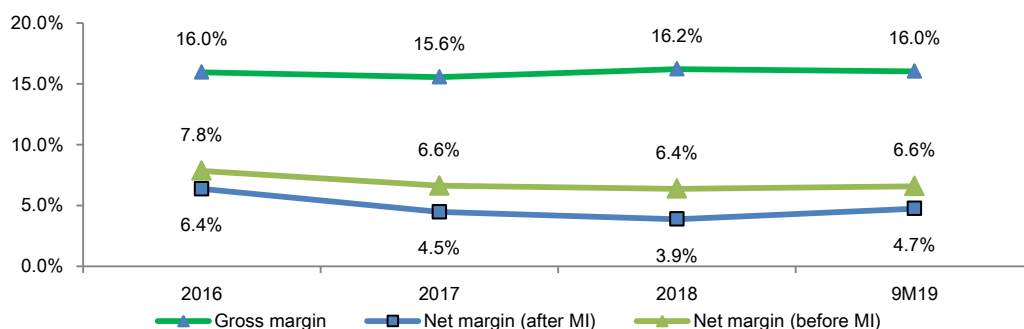
**Exhibit 4: Net profit attributable to owners of CMIG PM (before reorganization)**



Source(s): Company, ABCI Securities

- **Room for margin improvement:** CMIG PM's gross margin was steady at 15%-16% in the past three years, which was much lower than A-Living's 37.0% in 1H19. PM services, which entailed a lower margin than VAS, represented 82.9% and 86.5% of total revenue in 2018 and 9M19. Net margin (before MI) was 6.4% in 2018 and 6.6% in 9M19, lower than the listed peer average at ~13%. We believe margins of CMIG PM could improve after its integration with A-Living through a wider range of Community VAS, better terms with subcontractors, and integration of the groups' back offices.

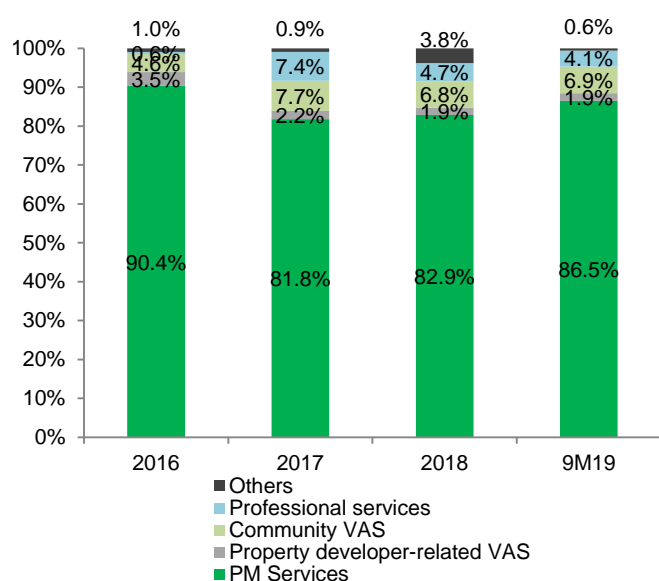
**Exhibit 5: Gross margin and net margin**



Source(s): Company, ABCI Securities

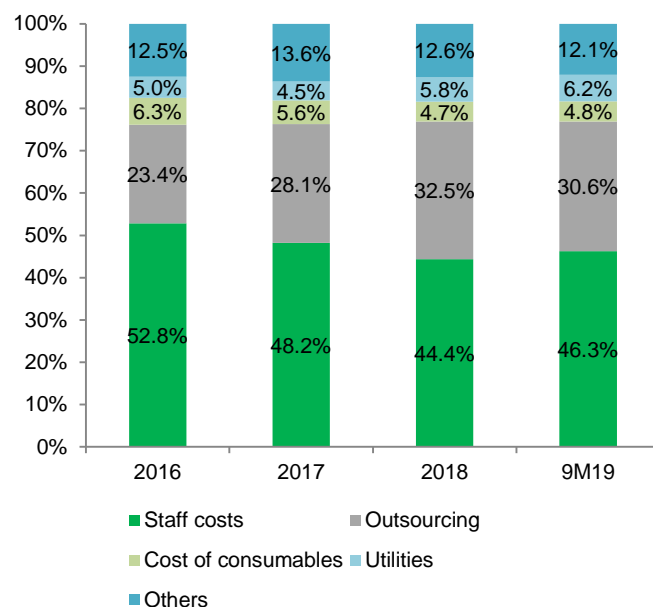


Exhibit 6: CMIG's revenue breakdown



Source(s): Company, ABCI Securities

Exhibit 7: CMIG's operating expenses breakdown



Source(s): Company, ABCI Securities

- Performance of M&As as indicated:** Before reorganisation, Kerui PM, a subsidiary of CMIG PM, had loans and interest receivables of RMB 1,379mn due from the remaining shareholder as at Sep 2019. Given the uncertain recoverability of such loans and receivables, auditor issued a qualified opinion on such basis. As a result, Kerui PM was subsequently disposed to form part of the new CMIG PM. Hence, two set of adjusted financials figures, reorganized CMIG (excl. Kerui PM) and new CMIG, are disclosed for the two different considerations in the deal. CMIG (excl. Kerui PM) has a total borrowing of RMB 471mn as at Dec 2019, of which RMB 435mn was asset-backed securities (ABS).

Exhibit 8: Adjusted figures after reorganization

	CMIG PM (excl. Kerui), adjusted basis*			New CMIG PM		
(RMBmn)	2016	2017	2018	2016	2017	2018
Revenue	2,316	2,537	3,002	615	827	957
YoY chg		10%	18%		35%	16%
Net profit after taxation (excl. exceptional)	207	243	267	50	88	83
YoY chg		18%	10%		75%	-5%
Net profit after taxation, attributable to CMIG PM (excl. exceptional)	145	169	181	26	42	39
YoY chg		17%	7%		61%	-7%

\* adding the pre-acquisition revenue of subsidiary acquired to the topline starting from 2016; adjusting for amortization arose from M&As

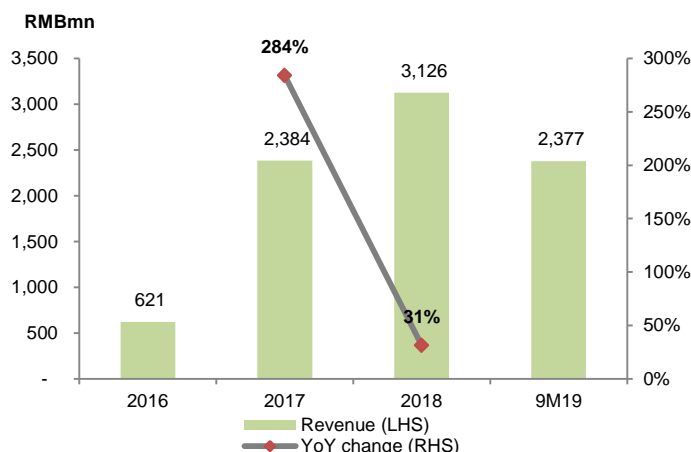
Source(s): Company, ABCI Securities



▪ **Steady like-for-like growth of acquisition targets reflected smooth integration:**

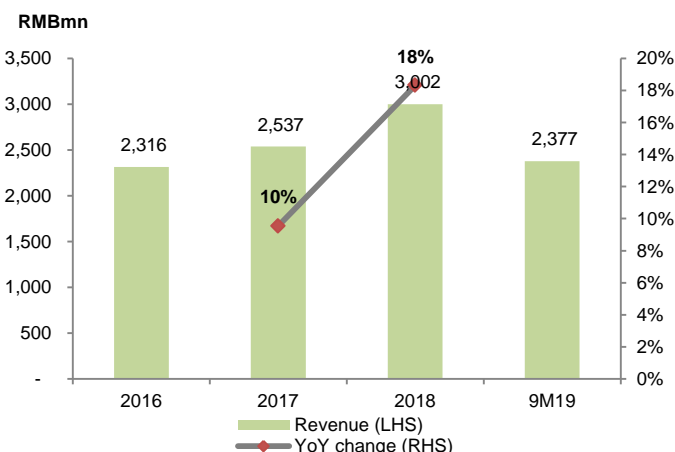
Unadjusted revenue growth of CMIG PM (excl. Kerui) was 284% YoY on significant acquisitions in 2017 but slowed to 31% YoY in 2018. Adjusted figures were also disclosed by 1) adding the pre-acquisition revenue of subsidiary acquired; 2) amortization of intangible assets from M&As. These adjusted figures are indirect indicators of the performance of the acquired targets/ subsidiaries. The comparison suggests a healthy 10-18%YoY growth during 2017-18 on a like-for-like basis.

**Exhibit 9: Revenue of CMIG PM (excl. Kerui PM), unadjusted figures**



Source(s): Company, ABCI Securities

**Exhibit 10: Revenue of CMIG PM (excluding Kerui PM), adjusted figures**



adding the pre-acquisition revenue of subsidiary acquired to the topline starting from 2016; adjusting for amortization arose from M&As

Source(s): Company, ABCI Securities

**Exhibit 11: A-Living's SOTP valuation**

SoTP valuation	RMBmn	valuation method
PM Services, Extended VAS (ex- property agency) and CVAS	54,603	DCF with 8% WACC
Property Agency	967	4x 2019E PE, in-line with Hopefluent (733 HK)
<b>Enterprise value</b>	<b>55,570</b>	
2020E Net cash/ (Debt)	4,907	
<b>2020E Equity value (RMBmn)</b>	<b>60,477</b>	
<b>2020E Equity value (HK\$mn)</b>	<b>67,432</b>	
No. of shares (mn)	1,333	
<b>TP (HK\$)</b>	<b>50.60</b>	

Source(s): Company, ABCI Securities estimates

**Exhibit 12: Changes in TP and profit forecasts**

	New	Old	Chg	Reasons
<b>TP (HK\$)</b>	50.60	19.10	164.9%	Reduce WACC from 9% to 8%; factoring in CMIG acquisition
<b>Core profit (RMBmn)</b>				
- 2019E	1,198	1,198	-	
- 2020E	1,701	1,677	1.4%	Factoring in CMIG acquisition; slower property agency fee due to COVID-19 event
- 2021E	2,371	2,143	10.6%	Factoring in CMIG acquisition

Source(s): Company, ABCI Securities estimates



## Financial statements

### Consolidated income statement (2017A-2021E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
<b>Revenue</b>	1,761	3,377	5,278	9,059	12,946
Direct costs	(1,170)	(2,087)	(3,314)	(6,046)	(8,653)
<b>Gross Profit</b>	591	1,290	1,963	3,013	4,293
Selling and marketing expenses	(33)	(46)	(53)	(61)	(70)
Administrative expenses	(154)	(302)	(402)	(649)	(839)
<b>EBIT</b>	404	942	1,509	2,304	3,384
Finance cost	(49)	(1)	-	-	-
Finance income	53	93	101	102	120
Other income/ (expenses)	10	42	10	10	10
Others one-off items	(16)	-	-	-	-
<b>Profit before tax</b>	403	1,075	1,619	2,415	3,513
Tax	(102)	(264)	(405)	(604)	(878)
<b>Profit after tax</b>	300	811	1,214	1,812	2,635
Minority interest	(10)	(10)	(17)	(111)	(264)
<b>Reported net profit</b>	290	801	1,198	1,701	2,371
Less: exceptional items	12	-23	0	0	-0
<b>Core net profit</b>	302	778	1,198	1,701	2,371
<b>Per share</b>					
Core EPS (RMB)	0.36	0.58	0.90	1.28	1.78
DPS (RMB)	-	0.30	0.45	0.64	0.89
Payout ratio (%)	0%	51%	50%	50%	50%
BVPS (RMB)	1.76	4.07	4.52	5.15	6.04
<b>Growth %</b>					
Revenue	41.5%	91.8%	56.3%	71.7%	42.9%
Gross Profit	89.5%	118.4%	52.2%	53.5%	42.5%
EBIT	88.7%	133.3%	60.2%	52.7%	46.9%
Core net profit	80.3%	176.5%	49.5%	42.0%	39.4%
<b>Margin %</b>					
Gross margin	33.5%	38.2%	37.2%	33.3%	33.2%
EBIT margin	22.9%	27.9%	28.6%	25.4%	26.1%
Core net margin	16.5%	23.7%	22.7%	18.8%	18.3%
<b>Revenue breakdown</b>					
Property management services	1,206	1,625	2,612	5,306	7,890
VAS to non-property owners	453	1,463	1,943	2,238	2,630
VAS to property owners	102	289	722	1,516	2,426
Total	1,761	3,377	5,278	9,059	12,946
<b>Key assumptions</b>					
Contracted GFA(mn sqm)	126.1	229.8	357.5	718.5	825.5
GFA under management (mn sqm)	78.3	138.1	230.2	524.4	579.4

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
<b>Current assets</b>	1,399	5,989	6,598	7,139	10,278
Cash and restricted cash	880	4,809	5,291	4,907	7,094
Trade & other receivables	488	1,165	1,292	2,218	3,169
Loan and interest receivables due from related parties	13	0	0	0	0
Other current assets	17	15	15	15	15
<b>Non-current assets</b>	1,112	1,308	1,829	3,638	3,273
Property, plant & equipment	71	80	90	100	110
Goodwill and other intangible assets	1,029	1,212	1,723	3,522	3,147
Loan and interest receivables due from related parties	0	0	0	0	0
Other non-current assets	12	16	16	16	16
<b>Total Assets</b>	2,511	7,297	8,428	10,777	13,551
<b>Current Liabilities</b>	1,015	1,726	2,242	3,630	4,955
Short term borrowings	0	0	0	0	0
Trade & other payables	952	1,169	1,685	3,073	4,398
Other current liabilities	62	557	557	557	557
<b>Non-current liabilities</b>	22	60	60	60	60
Long term borrowings	0	0	0	0	0
Deferred tax liabilities	22	37	37	37	37
Other non-current liabilities	0	24	24	24	24
<b>Total Liabilities</b>	1,037	1,787	2,302	3,691	5,015
<b>Net Assets</b>	1,474	5,510	6,125	7,086	8,536
Shareholders' Equity	1,472	5,422	6,021	6,872	8,057
Minority Interest	2	88	104	215	479
<b>Total Equity</b>	1,474	5,510	6,125	7,086	8,536
<b>Key ratio</b>					
Gross debt (RMB mn)	-	-	-	-	-
Net debt (RMB mn)	(880)	(4,809)	(5,291)	(4,907)	(7,094)
Net gearing (%)	-60%	-87%	-86%	-69%	-83%

Source(s): Company, ABCI Securities estimates





Consolidated cash flow statement (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
EBITDA	419	975	1,588	2,565	3,758
Change in Working Capital	(55)	(41)	389	463	374
Tax payment	(76)	(143)	(405)	(604)	(878)
<b>Operating Cash flow</b>	<b>287</b>	<b>790</b>	<b>1,572</b>	<b>2,424</b>	<b>3,254</b>
Purchase of PP&E	(17)	(19)	(10)	(10)	(10)
Loans repayments received from related parties	1,036	13	-	-	-
Interest received	46	93	101	102	120
Acquisition of subsidiaries	(981)	(116)	(591)	(2,060)	-
Others	(35)	10	-	-	(0)
<b>Investing Cash flow</b>	<b>49</b>	<b>(19)</b>	<b>(500)</b>	<b>(1,968)</b>	<b>110</b>
Debt raised	-	-	-	-	-
Debt repaid	(809)	-	-	-	-
Interest expenses	(33)	(0)	-	-	-
Equity raised	1,199	3,313	-	-	-
Dividend to shareholders	(270)	(50)	(599)	(850)	(1,186)
Others	(67)	(106)	10	10	10
<b>Financing Cash flow</b>	<b>20</b>	<b>3,157</b>	<b>(589)</b>	<b>(841)</b>	<b>(1,176)</b>
Net cash inflow/ (outflow)	357	3,928	483	(385)	2,188
<b>Cash- beginning</b>	<b>523</b>	<b>880</b>	<b>4,808</b>	<b>5,291</b>	<b>4,906</b>
<b>Cash- year-end</b>	<b>880</b>	<b>4,808</b>	<b>5,291</b>	<b>4,906</b>	<b>7,094</b>

Source(s): Company, ABCI Securities estimates





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Rating	Definition
Buy	Stock return $\geq$ Market return rate (10%)
Hold	- Market return (-10%) $\leq$ Stock return < Market return rate (10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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