



Colour Life (1778 HK) An undervalued market leader

- Colour Life (CL) is the largest HK-listed PMC by revenue bearing and contracted GFA
- We consider the injection of the property management firm Wangxiangmei (WXM) a favorable move. WXM would contribute to 44% of CL's core profit for 2018E
- Active users of CL's online platform, Caizhiyun app, increased from 0.4mn in 2014 to 2.4mn in 1H17; online earnings are also expanding rapidly
- Initiate **BUY** with DCF-derived TP of HK\$ 6.45

Largest HK-listed property management company (PMC). Listed in 2014, Colour Life (CL)'s contracted GFA grew from 205mn sqm in 2014 to 395mn sqm in 2016, implying a CAGR of 39% during the period. CL is now the largest PMC among the HK-listed PRC players by revenue-bearing and contracted GFA. Although CL's parent group, Fantasia, is a mid-cap listed developer, the majority of CL's new projects come from third-party developers. In 2016, about 44% of the newly added GFA under management came from M&A.

Injection of WXM to boost earnings. On Nov 14 2017, CL proposed to acquire Fantasia's 100% beneficial interest in Shenzhen Wangxiang (SZWX) and 100% of equity interest in Wangxiangmei (WXM) at RMB 2,013mn. Back in July 2016, Fantasia acquired a 49.94% stake in property management business of Wanda (subsequently named as WXM), the largest commercial property operator in China, at RMB 981mn under a partnership, while the remaining stake is acquired by the independent limited partner Greatwall Jiaxin. We estimate SZWX will contribute RMB 228mn or 44% of CL's core profit for 2018E. Besides, we estimate WXM has been charging a higher average management fee rate (RMB3.9/sqm/mth) than CL given the higher proportion of commercial properties (office and retail shops) in its project mix.

Substantial revenue from online platform. CL has been actively promoting its Caizhiyun app for its community services and migrating functions such as payment for property management fee, orders for repair and maintenance services, issuance of notices and complaint submission from offline to the online platform. Active users of the online platform increased from 0.4mn in 2014 to 2.4mn in 1H17. Revenue from Community leasing, sales and other services (CLSOS) soared from RMB 45mn in 2013 to RMB 157mn in 2016, implying a 52% CAGR during the period. In 1H17, such revenue jumped 55% YoY to RMB 111mn.

Initiate BUY with TP of HK\$6.45. Our DCF model applies a WACC of 10%. Our TP for the Group is set at HK\$6.45, implying 11.8x 18E P/E and 2.0x 18E P/B, lower than the sector average of 19.3x 18E P/E and 4.8x 18E P/B. CL issued a positive profit alert indicating a 50% YoY increase for 2017 reported profit. We believe market concerns on decreasing margin would fade and rerating is possible on significant earnings increase resulted from its acquisition of WXM. Initiate **BUY**.

Initiation Report Mar 13, 2018

Rating: **BUY**
TP: HK\$ 6.45

Analyst : Kenneth Tung
Tel: (852) 2147 8311
kennethtung@abci.com.hk

Share price (HK\$)	5.31
Est. share price return	21.5%
Est. dividend yield	1.5%
Est. total return	23.0%
Previous Rating & TP	NA
Previous Report Date	NA

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	5.9/4.26
Issued shares (mn)	1,314
Market cap (HK\$ mn)	6,980
3-mth avg daily turnover(HK\$ mn)	8.97
Major shareholder(s) (%)	
Fantasia Holding	72.46%

Source(s): Bloomberg, ABCI Securities

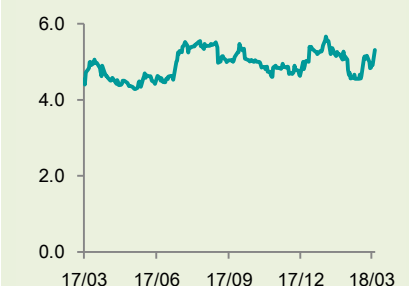
Share Performance

	Absolute	Relative*
1-mth	16.4	8.5
3-mth	8.4	(0.0)
6-mth	5.1	(7.1)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

Results and Valuation

FY ended Dec 31	2015A	2016A	2017E	2018E	2019E
Revenue (RMB mn)	828	1,342	1,789	3,721	4,254
Chg (% YoY)	112.6	62.2	33.3	108.1	14.3
Core net profit (RMB mn)*	252	263	336	593	725
Chg (% YoY)	44.5	4.4	27.7	76.7	22.2
Core EPS (RMB)	0.25	0.26	0.33	0.44	0.54
Chg (% YoY)	44.4	4.4	24.4	34.9	22.2
BVPS (RMB)	1.26	1.46	2.29	2.60	2.98
Chg (% YoY)	17.5	15.8	56.9	13.4	14.7
Core P/E (x)	17.2	16.5	13.3	9.8	8.0
P/B (x)	3.4	3.0	1.9	1.7	1.5
ROE (%)	16.3	20.0	18.0	11.1	17.3
ROA (%)	10.9	9.3	6.5	5.1	8.3
DPS(HK\$)	0.09	0.10	0.08	0.11	0.13
Yield (%)	1.7	1.9	1.5	2.1	2.5
Net gearing (%)	(29.1)	5.9	52.5	36.7	20.6

* Adjusted for share option expenses

Source(s): Bloomberg, ABCI Securities estimates

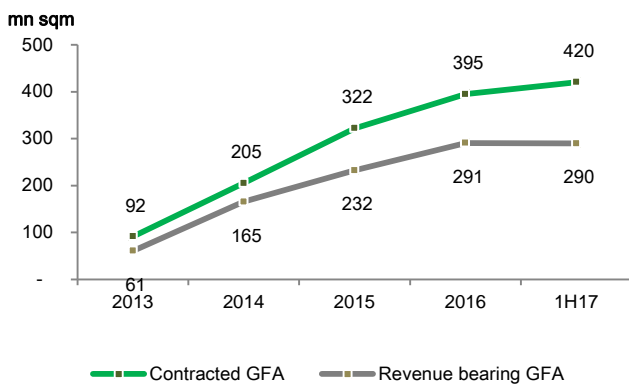


Property management services: Expansion via M&A

Largest HK-listed PMC in China by revenue-bearing GFA

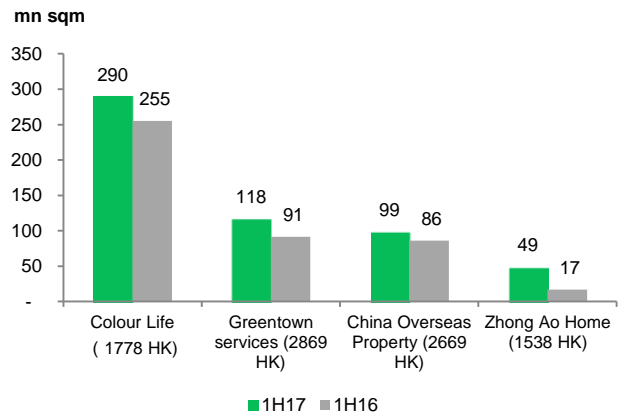
Listed in 2014, Colour Life (CL)'s contracted GFA expanded from 205mn sqm in 2014 to 395mn sqm in 2016, implying a CAGR of 39% during the period. CL is now the largest property management company (PMC) among the HK-listed PRC players by revenue-bearing GFA. As at end-June 2017, GFA under management contracts and consultancy service arrangements of the Group reached 420.2mn sqm, representing a 16.7% YoY growth. The number of residential communities under the Group's management and consultancy services contracts reached 2,335, covering 214 cities in China as well as Singapore.

Exhibit 1: Contracted GFA and revenue bearing GFA



Source(s): Company, ABCI Securities

Exhibit 2: Revenue-bearing GFA comparison

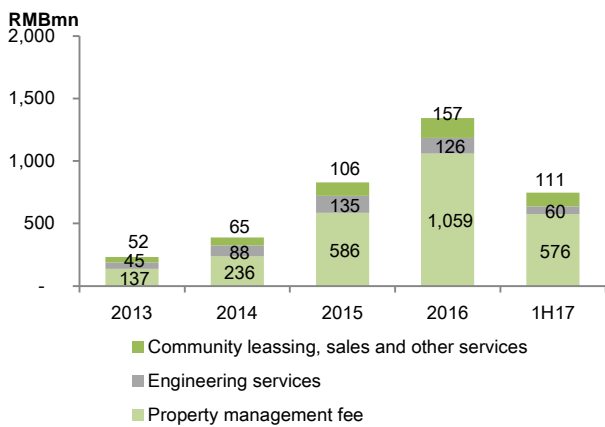


Source(s): Company, ABCI Securities

Diversified revenue streams

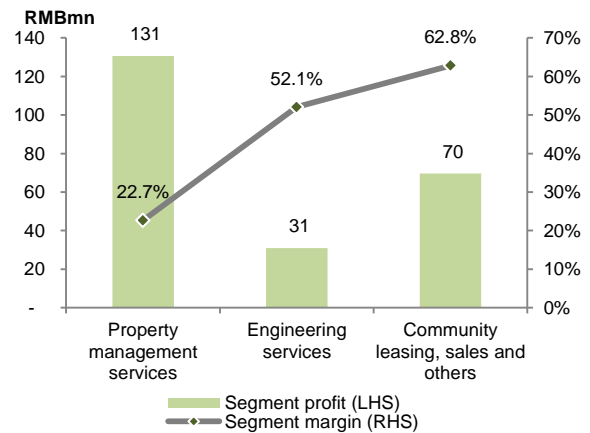
Apart from the traditional property management (PM) business (~77.2% of 1H17 revenue), CL also generates revenue from Engineering services (ES) and Community leasing, sales and other business (CLSO), which accounted for 8.0% and 14.8% of 1H17 total revenue. The operating profit margin of ES and CLSO are 52.1% and 62.8% in 1H17, much higher than 22.7% for the labor-intensive PM.

Exhibit 3: Revenue breakdown



Source(s): Company, ABCI Securities

Exhibit 4: Segmental profit and margin (1H17)



Source(s): Company, ABCI Securities



Exhibit 5: CL's 1H17 results

P&L	1H17	1H16	YoY Chg	Operating statistics	1H17	1H16	YoY Chg
	RMBmn	RMBmn	(%)				
Turnover	747	575	29.8	Contracted GFA (mn sqm)	420	360	16.7
Cost of Sales & direct operating costs	(407)	(320)	27.0	Revenue bearing GFA (mn sqm)	290	255	13.5
Gross Profit	340	255	33.3				
Gross Margin (%)	45.5	44.3	1.2ppt	Balance sheet	Jun-17	Dec-16	HoH %
					RMBmn	RMBmn	
Selling and distribution costs	(11)	(2)	396.0	Gross debt	1,416	1,338	5.8
Administrative expense	(125)	(93)	34.2	Cash	911	1,248	(26.9)
EBIT	203	159	27.6	Net debt	505	90	457.9
EBIT Margin (%)	27.2	27.7	(0.5)ppt	Net gearing (%)	32.3%	5.9%	26.4ppt
Other income, gains and losses	19	8	121.0	By segment	1H17	1H16	YoY Chg
Fair value gain of investment properties	(3)	4	(165.5)		RMBmn	RMBmn	
Other exceptional items	(14)	(18)	(21.2)	Revenue:			
Expenses recharged to residential	38	33	14.1	Property management services	576	439	31%
Share option expenses	(22)	(51)	(56.2)	Engineering services	60	64	-7%
Bad debt allowance	(12)	(12)	3.5	Community leasing, sales and others	111	71	55%
Share of profit from JCE/ Associates	0	0	na	Total	747	575	30%
Finance cost	(49)	(11)	338.7	Segment profit:			
Profit before tax	159	113	40.2	Property management services	131	93	41%
Tax	(56)	(40)	38.1	Engineering services	31	30	3%
Profit after tax	103	73	41.4	Community leasing, sales and others	70	57	21%
Minority Interest	(15)	(12)	27.0	Total	231	180	28%
Net profit	88	61	44.1	Segment margin:			
Adjusted net profit	172	165	4.3	Property management services	22.7%	21.0%	
Core net profit	140	133	5.3	Engineering services	52.1%	47.0%	
Core net margin	23.1	28.7	(5.7)ppt	Community leasing, sales and others	62.8%	80.4%	
				Total	31.0%	31.3%	

Source(s): Company, ABCI Securities

Commission-based contracts account for most GFA

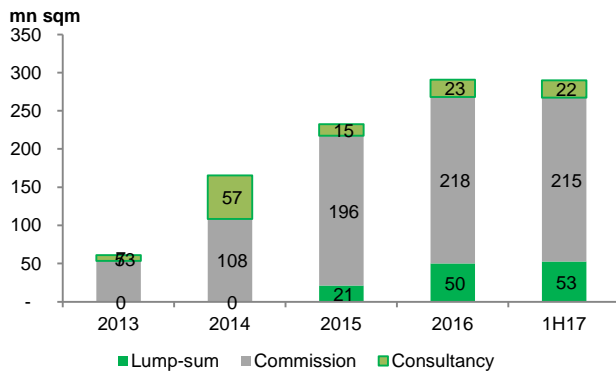
The Group expands its business by various contract types. As of June 2017, about 18%, 74 % and 8% of revenue-bearing GFA were under lump-sum, commission, and consultancy contracts.

Under the commission contract, revenue is recognized into P&L based on a fixed percentage (normally ~10%) of management fee, while the rest will be kept as working capital on behalf of the property owners for daily operation. Under the lump-sum contract, 100% of the management fee will be recognized in P&L while the corresponding operating costs will be taken up and booked as expenses by the PMCs. As a result, lump-sum contracts will register a higher topline and a lower margin than the commission contracts. As CL has been increasing its M&A activities in the past years, the proportion of lump-sum contracts - a more common contract type than the commission one among the smaller regional PMCs, increased rapidly in terms of total contracted GFA.

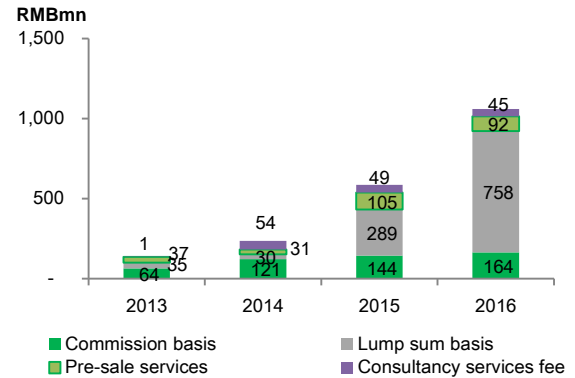
For the consultancy business, the contracts typically have a term of at least two years. CL provides consultation and advice to the regional property management companies on various aspects of operation including property management, engineering, quality control, and human resources management. The consultancy fees are generally calculated as periodic fixed fees or as a percentage of the client's revenue.

To promote the use of CL's O2O platform Caizhiyun to projects of third-party PMCs, the Group established a strategic cooperation with 28 PMCs (including Lanzhou

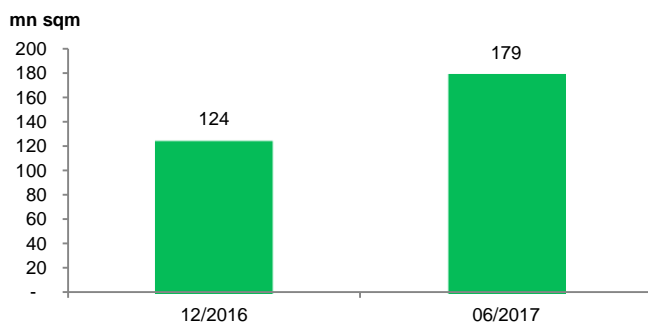
Chengguan Property Service and Jiangsu Zhongzhu Property Service, etc.). As at June 30, 2017, service area of the Caizhiyun reached 848.9 mn sqm, of which 420.2 mn sqm was contracted area, 178.7 mn sqm was cooperation area, and 250.0 mn sqm was alliance area.

Exhibit 6: Breakdown of revenue-bearing GFA (June 2017)


Source(s): Company, ABCI Securities

Exhibit 7: PM revenue breakdown by contract type


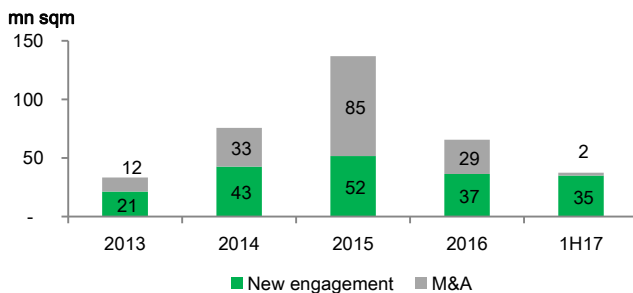
Source(s): Company, ABCI Securities

Exhibit 8: GFA under cooperation with third-party PMCs


Source(s): Company, ABCI Securities

44% of newly contracted GFA in 2016 came from M&A

Although CL's parent group, Fantasia, is a listed developer, the majority of new projects have been coming from third-party developers. In 2016, about 44% of the newly-added GFA under management came from M&A. The pace of M&A slowed noticeably in 1H17, which we believe will help the Group to focus on cost reduction and integration following the slew of acquisitions over the past years.

Exhibit 9: Newly contracted GFA managed by the Group - new engagement vs. M&A


Source(s): Company, ABCI Securities



Injection of WXM to boost earnings

On Nov 14, 2017, CL proposed to acquire Fantasia's 100% beneficial interest in Shenzhen Wangxiang (SZWX) and 100% equity interest in Wangxiangmei (WXM) at RMB 2,013mn. About RMB 812mn of the consideration was settled by issuing 231.5mn of new shares at HK\$5.10/share to Fantasia while the rest was settled in cash.

Back in July 2016, Fantasia acquired a 49.94% stake in the PM business of Wanda (subsequently named as WXM), the largest commercial property operator in China with revenue bearing GFA of 22.9mn sqm (of which 53% is commercial), at RMB 981mn under a partnership structure; the remaining stakes were acquired by the independent limited partner Greatwall Jiaxin. Subsequently, a fund set up by Wuhu Gopher (61.3%), Fantasia (26.5%), Colour Life (6.1%) and Home E&E (6.1%) acquired the stake previously acquired by Fantasia under a two-year investment scheme. Hence, WXM's results were not consolidated into Fantasia's financial statement, while CL was providing consultancy services to WXM. The reason for such financial arrangement was to optimize WXM's financial performance prior to its injection into CL. After various cost reduction measures, WXM's gross and net margins improved significantly from 21.2% and 3.9% in 2015 to 33.4% and 19.1% in 10M17. Net profit of WXM soared from RMB 22mn in 2016 to RMB 235mn in 10M17.

We estimate SZWX will contribute RMB 228mn to CL's net profit for 2018E (equivalent to 44% of 2018E core net profit) after deducing the fixed return payment for its limited partner Greatwall Jiaxin (we assume an annual return rate of ~8.63%). Besides, we estimate WXM would have a higher average management fee rate (estimate at RMB~3.9/sqm/mth) given the high proportion of commercial properties (office and retail shops) accounting for 53% of total GFA. As such, CL's margin should improve after the acquisition.

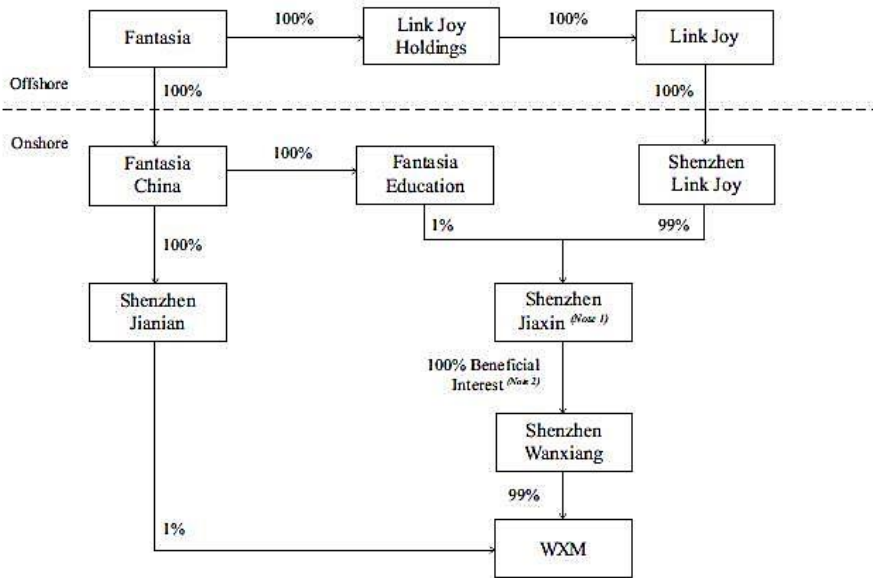
Exhibit 10: Financial performance of WXM

RMBmn	2014	2015	2016	CAGR	10M16	10M17	YoY chg
Revenue	975	1,198	1,325	16.6%	1,055	1,236	17.1%
Property management fees on lump-sum	858	990	1,139	15.2%	900	1,029	14.3%
Parking management service	37	59	40	3.6%	32	63	97.9%
Others	80	150	146	35.0%	123	144	17.1%
Cost of services	(765)	(944)	(1,041)	16.6%	(875)	(824)	-5.8%
Gross profit	210	254	284	16.3%	180	412	128.5%
<i>Gross margin</i>	<i>21.5%</i>	<i>21.2%</i>	<i>21.4%</i>		<i>17.1%</i>	<i>33.4%</i>	
Other income	6	11	10	34.9%	8	2	-76.7%
Other gains and losses	(3)	(6)	1	na	1	(9)	-1238.0%
Administrative expenses	(123)	(185)	(243)	40.3%	(161)	(92)	-42.6%
Finance cost	0	0	0	na	0	(2)	na
Profit before taxation	89	75	52	-23.8%	28	311	1013.4%
Income tax expense	(23)	(29)	(30)	14.0%	(13)	(76)	491.2%
Net profit	66	46	22	-42.7%	15	235	1455.1%
<i>Net margin</i>	<i>6.8%</i>	<i>3.9%</i>	<i>1.6%</i>		<i>1.4%</i>	<i>19.1%</i>	

Source(s): Company, ABCI Securities

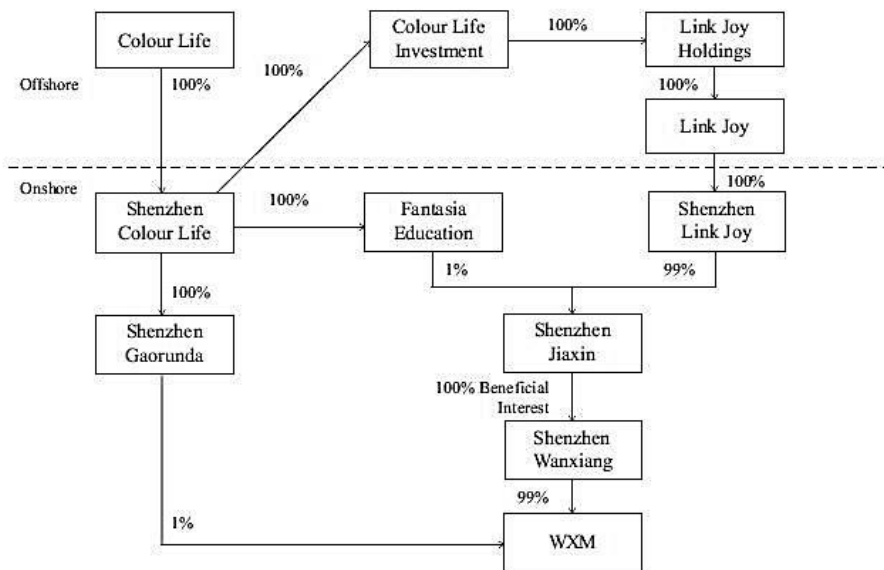


Exhibit 11: Group chart before WXM acquisition



Source(s): Company, ABCI Securities

Exhibit 12: Group chart after WXM acquisition



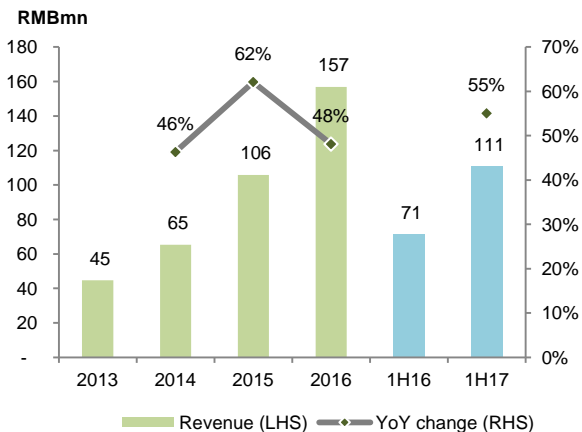
Source(s): Company, ABCI Securities

Community leasing, sales and other services: O2O as key driver

Online platform has started to contribute material revenue

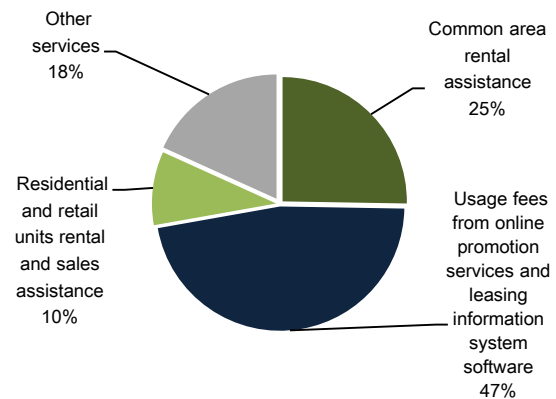
Accounting for 14.8% CL's 1H17 revenue, Community leasing, sales and other services (CLSOS) is the fastest growing business segment of the Group. Revenue from CLSOS soared from RMB 45mn in 2013 to RMB 157mn in 2016, implying a 52% CAGR during the period. In 1H17, such revenue jumped 55% YoY to RMB 111mn. Key driver for the segment is usage fees from its O2O platform (online promotion services and leasing information system), which represents 47% of the segment's revenue. CL has been actively promoting its Caizhiyun app for its community services, and migrating functions such as property management fee payment, repair and maintenance services order, notice issuance and complaint submission from offline to online platform. Active users of Caizhiyun increased from 0.4mn in 2014 to 2.4mn in 1H17. The users can enjoy convenience of the online app while the Group can derive channel usage fees by promoting services of third parties. Starting from 2016, the Group began to expand in an asset-light manner, acquiring a minority stake of 5-20% in smaller PMCs and export their online platform to the new communities not managed by them. With Caizhiyun covering an increasingly larger GFA, online revenue is set to increase.

Exhibit 13: Revenue from Community leasing, sales and other services



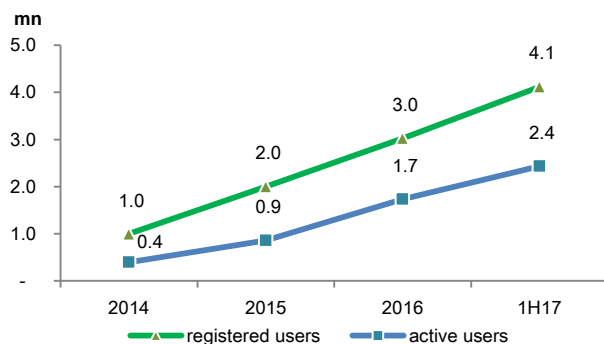
Source(s): Company, ABCI Securities

Exhibit 14: Revenue breakdown of Community leasing, sales and other services



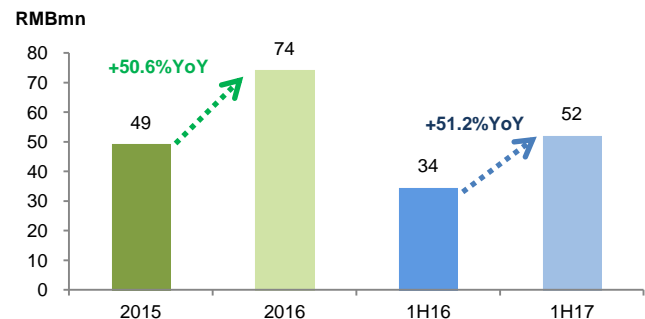
Source(s): Company, ABCI Securities

Exhibit 15: Caizhiyun app- registered and active users



Source(s): Company, ABCI Securities

Exhibit 16: Usage fee from online promotion services and leasing information system software



Source(s): Company, ABCI Securities



Innovative online service and wealth management products

CL's online platform collaborates with different third-party service providers and offers a wide range of innovative products:

- **E-repair:** Repairers employed are gradually transferred to E-repair platform, converting the fixed labor cost into variable cost based on per order settlement. Ticket-based settlement will boost repairers' efficiency in response and improve customer satisfaction. As at June 30, 2017, E-Repair recorded a daily order volume of more than 15,000 orders, up 50% HoH.
- **E-energy:** CL specialized in community energy-saving business, adding water saving, energy saving, meter reading to household services and other integrated services through the installation of energy-saving and energy-storage equipment. It helps PMCs improve service efficiency and share profit generated from cost saving. In 1H17, energy-saving services generated a revenue of RMB 20mn (FY16: RMB 22.4mn).
- **E-Parking:** CL helps improve efficiency of parking lot operation and share the profit with PMCs. In the future, CL may extend their business to vehicle maintenance and vehicle insurance.
- **Colour Wealth Life Value-added Plan (CWLVP):** Under Colour Wealth Life Value-added plan, community residents may opt to purchase wealth management products to set off against their property management fee payables and enjoy an investment returns at a slightly higher rate than fixed bank deposit. CWLVP is more than simply a value-added service offering – the plan actually improves efficiency in fee collection. In 1H17, CWVLP registered an aggregate turnover of RMB 1,966mn (+225.9% YoY) and contributed an income of RMB 20.7mn.
- **Colour Life property:** CL teams up with developers and financial institutions in the Colour Life Property program. The property developers will set aside part of the home-purchasing payment for CL to invest. Funded by the investment returns generated, home buyers will be rewarded coupons that can be redeemed in the Caizhiyun app for a variety of services. For developers, their sales performance is likely to improve by offering coupons to homebuyers, while CL will benefit from increasing usage fee of Caizhiyun. In 1H17, number of property units sold under the Colour Life Property program amounted to 2,743 units, compared to 4,513 units sold for FY16.

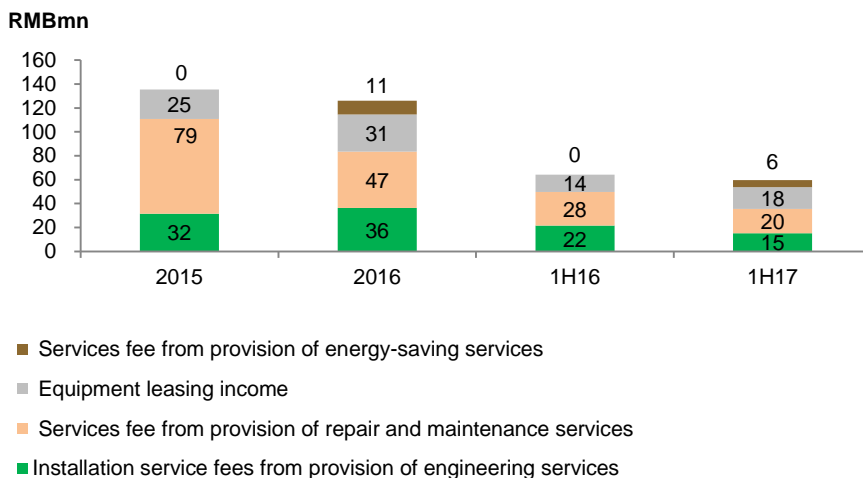
Engineering services: Slower growth due to business change

CL's Engineering services (ES) division mainly provides four types of services:

- 1) Equipment Installation Services.** To diversify revenue sources and tighten relationships with property developers, CL provides automation and other hardware equipment installation services in accordance with their requirements;
- 2) Repair and Maintenance Services.** CL provides repair and maintenance services on various building hardware such as elevators, fire protection equipment and drainage systems;
- 3) Equipment Leasing.** CL provides automation and other equipment upgrade services to residential communities under management or consultancy services through its equipment leasing program;
- 4) Energy-saving equipment installation services:** CL assists communities in energy conservation by replacing existing hardware with energy-saving equipment such as LED lights, motion-sensor lights, and energy efficient elevators.

Revenue from Repair and Maintenance Services has been declining since 2015, mainly due to introduction of E-Repair, which provide services with higher efficiency and qualities. The Group charged an online platform usage fee from E-Repair, whose revenue is classified as on-line value-added services. Revenue from equipment installation services is slightly more volatile as it depends on completion schedule of the required work; equipment leasing and energy-saving businesses, however, would continue to expand at a high rate on low base due to the later inception.

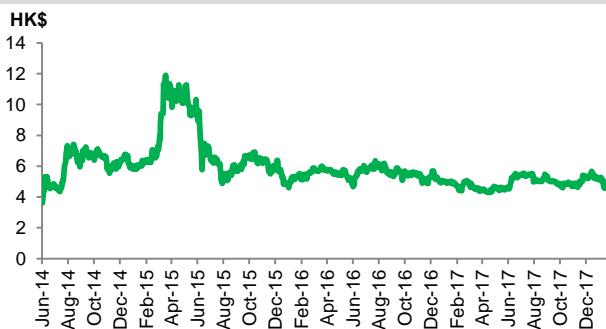
Exhibit 17: Revenue breakdown of Engineering services



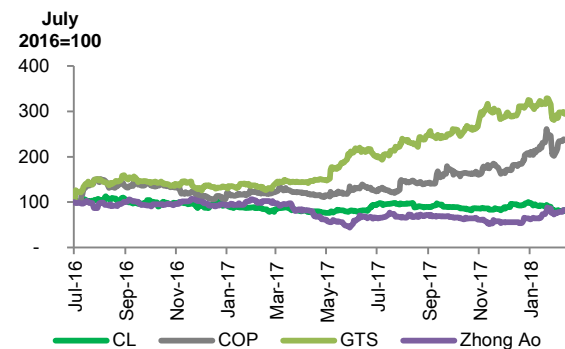
Source(s): Company, ABCI Securities

Market concerns to alleviate

CL was ranked first in terms on contracted GFA among the listed names over the past years. Its share price performance, however, has been insipid compared to the newly listed names, such as China Overseas Property (COP, 2669 HK) and Greentown Services (GTS, 2869 HK). In our view, three major factors dragging its price movement: 1) Margin concern resulted from numerous M&A; 2) Concern over fundraising activities to reduce gearing; 3) Rising amount of lump-sum basis contracts. With the WXM acquisition, however, we believe CL's earnings will show a substantial uptick in 2018E and a re-rating is probable by 2Q18.

Exhibit 18: CL's share price performance since IPO


Source(s): Bloomberg, ABCI Securities

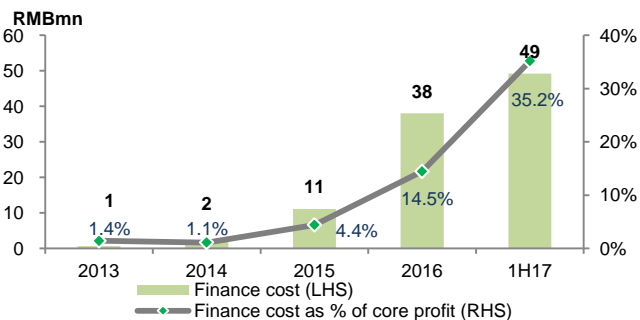
Exhibit 19: Share price performance CL vs. Peers


Source(s): Bloomberg, ABCI Securities

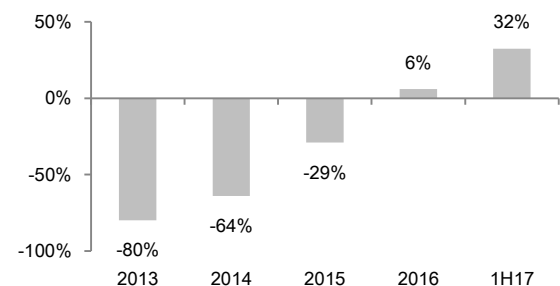
Active M&A resulted in short-term margin pressure

As CL expanded its GFA under management through M&A, its net gearing rose from 6% in 2016 to 32% in 1H17. Frequent acquisitions also led to rising finance cost, which climbed from RMB 38mn (14.3% of core profit) in 2016 to RMB 49mn in 1H17 (35.2% of core profit). M&A often result in temporary earnings erosion, as finance cost will be incurred in drawdown of borrowings or deposit payment, while earnings contribution will only occur upon completion of transactions a few months later. Moreover, management contracts acquired will be booked as intangible assets subjected to amortization each year. For CL, depreciation and amortization rose quickly from RMB 5mn in 2013 to RMB 51mn in 2016.

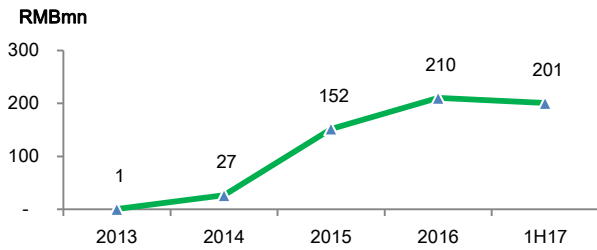
CL has slowed its acquisition pace since 1H17, with M&A only accounting for 5% of newly contracted GFA. For sizeable acquisition such as WXM, the transaction was made by its parent group Fantasia in an off-balance sheet approach. All necessary restructuring cost of the acquisition has already incurred before the asset was injected and integrated into CL.

Exhibit 20: Finance cost and finance cost as a percentage of core net profit


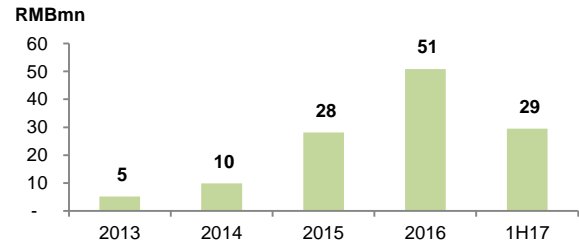
Source(s): Company, ABCI Securities

Exhibit 21: Net gearing


Source(s): Company, ABCI Securities

Exhibit 22: Intangible assets rose in 2015 and 2016 on active M&A


Source(s): Company, ABCI Securities

Exhibit 23: Amortization and depreciation rose rapidly in 2015 and 2016


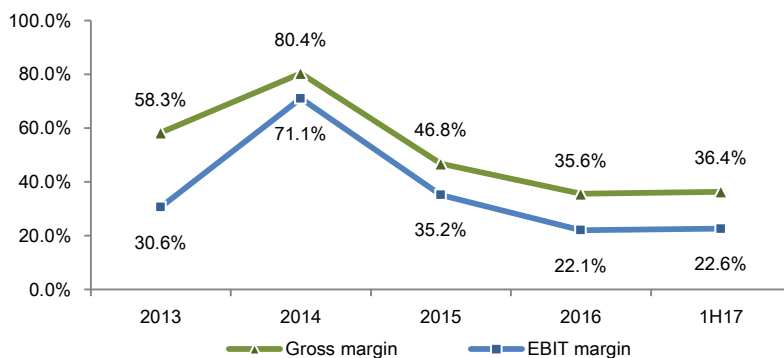
Source(s): Company, ABCI Securities

Fundraising activities

Apart from the RMB 812mn proceeds raised from 231.5mn new shares issued at HK\$ 5.10/share to Fantasia in Nov 2017 for the WXM acquisition, CL also placed 87.24mn of new shares (8.06% of enlarged capital) to independent third parties at HK\$ 5.00 (6% discount to closing price) in Dec 2017 for working capital and future expansion purposes. Equity issuance may result in earnings dilution but help contain net gearing at a reasonable level.

Rising amount of lump-sum contracts

As the Group increased its M&A activities since listing in 2014, the proportion of GFA under the lump-sum contracts scheme increased rapidly since such contract type is the most common among PMCs in China. Due to accounting differences, we estimate these lump-sum contracts entailed a gross margin of ~20% in 2016 only, as opposed to the ~100% for commission contracts. As a result, gross margin for the segment dropped from 80.4% in 2014 to 35.6% in 2016. In 1H17, gross margin improved from 35.6% in 2016, to 36.4% in 1H17, which may imply a more balanced mix in contract type. Besides, gross margin for lump-sum contracts also rebounded by 6.3ppt YoY in 1H17 on cost optimization of acquired projects. We expect gross margin to resume a growing trend on reduced M&A activities and cost reduction initiatives.

Exhibit 24: Gross margin of Property management segment


Source(s): Company, ABCI Securities

Initiate BUY with DCF-derived TP of HK\$ 6.45

The market mostly adopt a comparative approach in valuing PMCs. The specific approach, however, stresses mainly on the earnings aspect without accounting for a company's balance sheet position and longer-term growth. A substantial portion of CL's revenue is determined by property management agreement. Given its strong visibility in cash flow, we believe DCF valuation would offer a more accurate assessment of the Group's value.

We adopt the DCF model with a WACC of 10% to derive a TP of HK\$ 6.45, implying 11.8x 18E P/E and 2.0x 18E P/B. Compared to its peers, which refer to PMCs in China including China Overseas Properties (2669 HK), Zhong Ao Home (1538 HK), and Greentown Services (2869 HK), CL is trading at a discount level at 9.8x 18E P/E and 1.7x 18E P/B while the sector average stands at 19.3x 18E P/E and 4.8x 18E P/B. We believe CL's depressed valuation is unjustified given the sizable acquisition of WXM, which will elevate the Group's earnings materially in 2018. Hence, we initiate **BUY** on CL with a TP HK\$ 6.45.

Exhibit 25: Sensitivity analysis of DCF-derived enterprise value to changes in WACC

WACC	8.0%	9.0%	10.0%	11.0%	12.0%
2018E Equity value (RMBmn)	11,283	9,830	8,675	7,735	6,956
TP (HK\$)	8.39	7.31	6.45	5.75	5.17
Variance (%)	30.0%	13.3%	0.0%	-10.9%	-19.8%

Source(s): ABCI Securities estimates

Exhibit 26: Valuation of PRC property management company

China Property	Ticker	Rating	TP	Mkt. cap (HKD bn)	Shr Price (local ccy)	Performance			Valuation									
						3M	YTD	2016	P/E			Yield (%)			P/B			
						% Chg	% Chg	% Chg	2016A	2017E	2018E	2016A	2017E	2018E	2016A	2017E	2018E	
Residential :																		
Greentown	2869 HK	NR		16.7	6.00	5	(2)	135	68.8	34.6	26.3	0.8	1.0	1.3	7.6	6.7	5.5	
COP	2669 HK	NR		8.8	2.69	42	27	62	39.5	28.6	21.9	0.8	1.1	1.4	10.0	9.3	7.1	
Colourlife	1778 HK	BUY	6.45	7.0	5.31	11	2	(8)	16.5	13.3	9.8	1.9	1.5	2.1	3.0	1.9	1.7	
Zhong Ao	1538 HK	NR		0.8	0.94	40	42	(42)	8.5	NA	NA	0.0	NA	NA	1.4	NA	NA	
PMC avg (Ex Zhong Ao)						25	17	37	33.3	25.5	19.3	0.9	1.2	1.6	5.5	6.0	4.8	

Source(s): Bloomberg, ABCI Securities estimates

Exhibit 27: Peer comparison (2016 vs. 2015)

	Greentown Services (2869 HK)			China Overseas Property (2669 HK)			Colour Life (1778 HK)			Zhong Ao Home (1538 HK)		
	2015	2016	YoY chg.	2015	2016	YoY chg.	2015	2016	YoY chg.	2015	2016	YoY chg.
Revenue bearing GFA (mn sqm)	82.8	105.2	27%	82.6	93.5	13%	232	291	25%	33.8	60.0	78%
- Residential	61.9	76.1	23%	NA	NA		NA	NA		NA	NA	
- Commercial	20.9	29.1	40%	NA	NA		NA	NA		NA	NA	
% as total contracted GFA												
- Residential	75%	72%	-3ppt	NA	NA		NA	NA		NA	NA	
- Commercial	25%	28%	+3ppt	NA	NA		NA	NA		NA	NA	
Average management fee (RMB/sqm/mth)	3.06	3.08	1%	NA	NA		NA	NA		1.86	1.76	-5%
Revenue (RMBmn)	2,919	3,722	28%	2,544	2,563	1%	828	1,342	62%	420	635	51%
- PMS revenue	2,091	2,620	25%	2,347	2,334	-1%	586	1,059	81%	321	514	60%
- VAS revenue	828	1,102	33%	197	229	16%	241	283	17%	99	121	22%
% as total revenue												
- PMS revenue	72%	70%	-2ppt	92%	91%	+5ppt	71%	79%	-2ppt	76%	81%	+5ppt
- VAS revenue	28%	30%	+2ppt	8%	9%	-5ppt	29%	21%	+2ppt	24%	19%	-5ppt
Gross profit (RMBmn)	531	716	35%	525	636	21%	454	586	29%	140	157	12%
Gross margin (%)	18.2%	19.2%	1%	20.6%	24.8%	4%	54.9%	43.6%	-11%	33.3%	24.7%	-9%
Net profit (RMBmn)	198	286	44%	117	226	93%	168	188	11%	11	-6	NA
Net margin (%)	6.8%	7.7%	1%	4.6%	8.8%	4.2%	20.4%	14.0%	-6%	2.6%	-1.0%	-3.6%

Source(s): Companies, ABCI Securities

Exhibit 28: Peer comparison (1H17 vs. 1H16)

	Greentown Services (2869 HK)			China Overseas Property (2669 HK)			Colour Life (1778 HK)			Zhong Ao Home (1538 HK)		
	1H16	1H17	YoY chg.	1H16	1H17	YoY chg.	1H16	1H17	YoY chg.	1H16	1H17	YoY chg.
Revenue bearing GFA (mn sqm)	91.4	117.5	29%	86	98.6	15%	255	290	14%	36	63	74%
- Residential	74.9	92.1	23%									
- Commercial	16.5	25.4	54%									
% as total contracted GFA												
- Residential	82%	78%	-3ppt	NA	NA		NA	NA		NA	NA	
- Commercial	18%	22%	+3ppt	NA	NA		NA	NA		NA	NA	
Average management fee (RMB/sqm/mth)	3.06	3.09	1%									
Revenue (RMBmn)	1,649	2,203	34%	1,257	1,308	4%	575	747	30%	261	476	82%
- PMS revenue	1,178	1,529	30%	1,150	1,207	5%	439	576	31%	224	443	98%
- VAS revenue	471	675	43%	107	101	-6%	136	170	26%	37	32	-14%
% as total revenue												
- PMS revenue	71%	69%	-2ppt	91%	92%		76%	77%	-2ppt	86%	93%	
- VAS revenue	29%	31%	+2ppt	9%	8%		24%	23%	+2ppt	14%	7%	
Gross profit (RMBmn)	309	410	33%	310	394	27%	255	340	33%	76	144	90%
Gross margin (%)	18.7%	18.6%	0%	24.7%	30.1%	5.5%	44.3%	45.5%	1%	29.1%	30.4%	1.3%
Net profit (RMBmn)	125	178	42%	114	155	36%	73	101	37%	-6	46	NA
Net margin (%)	7.6%	8.1%	0%	9.1%	11.9%	2.8%	12.8%	13.5%	1%	-2.3%	9.6%	11.9%

Source(s): Companies, ABCI Securities



Risk factors

- **Lack of visible pipeline compared to parent-dependent PMCs.** Parent-dependent PMCs, such as COP, usually have a more visible project pipeline. Their future growth can be roughly estimated from the parents' presales volume. In contrast, CL is highly dependent on M&A and project tendering where success is determined by the Group's ability to compete in the market.
- **Mounting SG&A expenses due to post-M&A integration.** SG&A expenses increased by 124% YoY to RMB 145mn in 2015 and 131% YoY to RMB 232mn in 2016 as a result of frequent M&A and restructuring expenses. EBIT margin declined from 63.0% in 2014 to 26.4% in 2016. The acquisition targets (mainly projects from smaller PMCs) tended to have a lower margin due to the lack of economies of scale. We expect CL's margin to improve in the future as M&A pace slows and restructuring completes over time.
- **Declining revenue from Engineering services.** Revenue from Engineering services declined 7% YoY in 2016 to RMB 126mn and 7% YoY in 1H17 to RMB 60mn as part of the business migrates to the online platform. Declining engineering services in traditional channel may drag down the Group's overall growth.
- **Limited ability to raise management fee.** It is difficult for PMCs to raise management fee rate upon contract renewal as clients in residential projects are highly price sensitive. PMCs are required to implement cost-cutting measures to mitigate rising labor cost.
- **Significant share option expenses:** CL recognized RMB88mn and RMB79mn share option expenses in P&L for FY15 and FY16, which represent 42% and 53% of reported net profit respectively. Share option expenses are highly dependent on market situation and unpredictable in nature.



Consolidated income statement (2014A-2019E)

FY Ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	389	828	1,342	1,789	3,721	4,254
Cost of sales	(79)	(373)	(756)	(972)	(2,171)	(2,440)
Gross Profit	310	454	586	816	1,550	1,814
SG&A expenses	(65)	(145)	(232)	(288)	(547)	(617)
EBIT	245	310	354	529	1,002	1,198
Finance cost	(2)	(11)	(38)	(107)	(193)	(193)
Share of profit of associates	0	1	1	-	-	-
Other income/ (expenses)	4	15	17	17	17	17
Expenses recharged under commission basis	20	47	66	72	78	85
Allowance for bad debt	(11)	(28)	(29)	(20)	(20)	(20)
Share option expenses	(30)	(88)	(79)	(40)	(40)	(40)
Listing expenses & others	(16)	-	-	-	-	-
Fair value change of IP	2	7	6	-	-	-
Profit before tax	212	252	298	451	845	1,046
Tax	(61)	(69)	(82)	(113)	(211)	(262)
Profit after tax	150	183	216	339	634	785
Minority interest	(5)	(14)	(28)	(43)	(81)	(100)
Reported net profit	146	168	188	296	553	685
Less: exceptional items	29	83	75	40	40	40
Core net profit	174	252	263	336	593	725
Per share						
Underlying EPS (RMB)	0.17	0.25	0.26	0.33	0.44	0.54
DPS (HK\$)	0.09	0.09	0.10	0.08	0.11	0.13
Payout ratio (%)	52%	36%	38%	25%	25%	25%
BVPS (RMB)	1.07	1.26	1.46	2.29	2.60	2.98
Growth %						
Revenue	67.0%	112.6%	62.2%	33.3%	108.1%	14.3%
Gross Profit	115.7%	46.7%	28.9%	39.4%	89.8%	17.1%
EBIT	200.5%	26.3%	14.3%	49.4%	89.5%	19.5%
Underlying net profit	292.5%	44.5%	4.4%	27.7%	76.7%	22.2%
Margin %						
Gross margin	79.6%	54.9%	43.6%	45.6%	41.6%	42.6%
EBIT margin	63.0%	37.4%	26.4%	29.6%	26.9%	28.2%
Core net margin	44.8%	30.4%	19.6%	18.8%	15.9%	17.0%
Key assumptions						
Property management fee (RMBmn)	236	586	1,059	1,389	3,008	3,482
Engineering services (RMBmn)	88	135	126	117	115	114
Community leasing, sales and other services (RMBmn)	65	106	157	282	598	658
Contracted GFA(mn sqm)	205	322	395	480	647	732
Revenue-bearing GFA (mn sqm)	165	232	291	331	408	465

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2014A-2019E)

As of Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
Current assets	1,209	1,589	2,453	2,040	2,524	3,127
Cash	687	419	755	314	768	1,339
Pledged deposit	136	551	493	493	493	493
Trade & other receivables	222	291	467	494	523	556
Amount due to related parties	35	101	135	135	135	135
Payments on behalf of residents	86	170	260	260	260	260
Other current assets	42	56	344	345	345	345
Non-current assets	391	1,131	1,570	4,596	4,610	4,624
Property, plant & equipment	68	167	181	195	209	223
Investment properties	30	89	93	93	93	93
Intangible assets	27	152	210	810	810	810
Goodwill	105	576	750	2,250	2,250	2,250
Investment in Associate and JCE	2	7	9	9	9	9
Other non-current assets	159	140	328	1,241	1,241	1,241
Total Assets	1,600	2,719	4,023	6,636	7,134	7,751
Current Liabilities	503	1,074	1,282	1,293	1,306	1,320
Short term borrowings	128	303	214	214	214	214
Trade & other payables	202	501	710	722	734	748
Receipt on behalf of residents	73	104	156	156	156	156
Amount due to related parties	8	40	48	48	48	48
Other current assets	92	125	154	154	154	154
Non-current liabilities	9	345	1,208	2,208	2,208	2,208
Long term borrowings	0	290	1,124	2,124	2,124	2,124
Deferred tax liabilities	7	54	74	74	74	74
Other non-current assets	2	1	10	10	10	10
Total Liabilities	512	1,418	2,490	3,502	3,514	3,528
Net Assets	1,087	1,301	1,532	3,135	3,620	4,224
Shareholders' Equity	1,072	1,259	1,459	3,018	3,423	3,926
Minority Interest	16	41	74	117	197	297
Total Equity	1,087	1,301	1,532	3,135	3,620	4,224
Key ratio						
Gross debt (RMB mn)	128	593	1,338	2,338	2,338	2,338
Net debt (RMB mn)	(695)	(378)	90	1,531	1,077	506
Net gearing (%)	-64%	-29%	6%	49%	30%	12%

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2019E)

FY ended Dec 31 (RMB mn)	2014A	2015A	2016A	2017E	2018E	2019E
EBITDA	255	338	405	580	1,053	1,249
Change in Working Capital	(172)	(34)	(14)	(16)	(17)	(19)
Tax payment	(26)	(65)	(69)	(113)	(211)	(262)
Operating cash flow	57	239	322	451	825	968
Purchase of PP&E	(338)	(901)	(615)	(3,048)	(29)	(23)
Addition of Investment Properties	(50)	(51)	(65)	(65)	(65)	(65)
Others	50	51	65	65	65	65
Investing cash flow	(338)	(901)	(615)	(3,048)	(29)	(23)
Debt raised	128	593	220	1,200	200	200
Debt repaid	(0)	(128)	(153)	(200)	(200)	(200)
Interest expenses	(2)	(11)	(17)	(107)	(193)	(193)
Equity raised	729	-	-	1,347	-	-
Dividend to shareholders	-	(71)	(85)	(84)	(148)	(181)
Others	(34)	13	663	-	-	-
Financing cash flow	821	395	628	2,156	(342)	(375)
Net cash inflow/ (outflow)	541	(268)	335	(441)	454	571
Cash- beginning	146	687	419	755	314	768
Cash- year-end	687	419	755	314	768	1,339

Source(s): Company, ABCI Securities estimates

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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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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.

Tel: (852) 2868 2183