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ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

China Property Management Sector

Favorable policy to drive sector

Mar 6, 2020

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- Hangzhou and Shenzhen provides subsidies to PMCs amid the COVID-19 outbreak
- We estimate the reductions in social insurance payments will elevate 2020E core profit by 2.9%-8.7% for the sector
- Increased time spent at home is driving CVAS revenue growth
- **A-Living (3319 HK)** is our top pick given its attractive valuation and sizable portfolio after the acquisition of CMIG. **Languang (2606 HK)** is our small/mid-cap pick based on its solid track record in M&As

Sector Report
Mar 6, 2020
OVERWEIGHT

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Key Data

Avg.20E P/E (x)	26.7
Avg.20E P/B (x)	5.8
Avg.20E Dividend Yield (%)	1.9

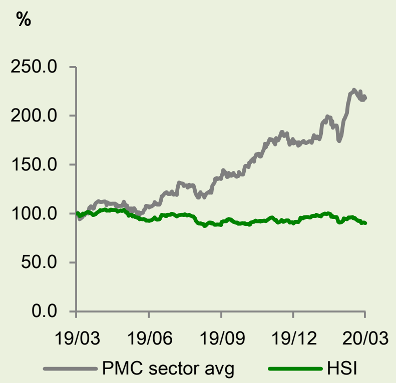
Source(s): Bloomberg, ABCI Securities

Sector Performance %

	Absolute	Relative*
1-mth	26.5	26.6
3-mth	29.1	29.4
6-mth	62.5	59.5

*Relative to HSI
Source(s): Bloomberg, ABCI Securities

1-Year sector performance



Source(s): Bloomberg, ABCI Securities

Various supports from local governments. The Hangzhou government has recently announced several supportive measures to help enterprises amid the 2019-nCoV outbreak. In particular, Hangzhou is providing subsidies of RMB0.5/sqm to local property management companies (PMCs) for two months based on their GFA under management of residential projects; Shenzhen also adopts similar supportive policies to aid PMCs. We believe the virus outbreak has limited impact on the management fee of residential projects. The State Council has recently cut the enterprise payments for pension funds, jobless insurance, and work-related injury insurance temporarily to stabilize employment. All enterprises in the Hubei province can be exempted from the insurance payments from Feb-June. For other provinces, micro, small and medium enterprises (MSEs) can be exempted from the social insurance payments from Feb-June, while large enterprises can reduce such payments by 50% from Feb-Apr. We estimate the 50% cut from Feb-April may boost the 2020E net profit of listed PMCs by 2.9-8.7%.

Good timing for M&As. As a result of the COVID-19 outbreak, some of the small/mid developers may have to divest their non-core assets under cash flow pressure. We believe it provides a good opportunity for the HK-listed PRC PMCs to grow its market share through M&As. In particular, we expect valuations of acquisitions may fall as regional developers may need to sell their PM operations for cash. For instance, Ever Sunshine acquired Qingdao Yinshengtai Property Management Services (QYPMS) at a historical P/E of 4.7x, much lower than usual 11-14x P/E range for M&As over the last 12 months.

Increasing awareness on Community Value added Services (CVAS). To reduce infection risk, many opt to stay home to minimize infection risk. The increased time spent at home means they are more likely to utilize PMC's CVAS such as grocery group purchases, home cleaning, repair and maintenance services via PMC's proprietary apps. We believe the transaction volume, the number of first-time and active users for the apps would increase.

A-Living is our top pick on attractive valuation and solid M&A execution. Trading at 26.2x 2020PE, A-Living stands out as the most attractive large-cap player based on its sizeable GFA under management after the mega acquisition of CMIG, which we expect significant synergies will emerge in cost-saving and public properties projects. A-living's experience in M&As would also enable a fast GFA growth in the future. Besides, inclusion of its shares in the Stock Connect would be the near-term price catalyst. Maintain **BUY** with revised TP HK$ HK$ 50.60 (from HK$ 19.1). Justbon is our preferred small/mid-cap player for its active acquisitions over the past three years. M&As account for ~50% of GFA addition each year without affecting the overall margins. Maintain **BUY** with TP at HK$ 63.90.

Sector Valuation Summary (data as of Mar 5, 2020)

Company	Ticker	Current Rating	Previous Rating	TP (HK$)	FY19E P/E(x)	FY20E P/E (x)	FY19E P/B (x)	FY20E P/B (x)	FY19E Yield(%)	FY20E Yield(%)
A-Living	3319	BUY	BUY	50.60	37.2	26.2	7.4	6.5	1.3	1.9
Poly Property Dev.	6049	BUY	BUY	66.30	69.1	49.2	5.5	5.1	0.4	0.5
Ever Sunshine	1995	BUY	BUY	9.70	50.9	34.6	10.8	8.7	0.5	0.7
Languang Justbon	2606	BUY	BUY	63.90	18.2	13.6	3.2	2.7	1.6	2.2
Powerlong CM	9909	BUY	BUY	12.50	32.8	22.7	3.4	3.0	0.9	1.3

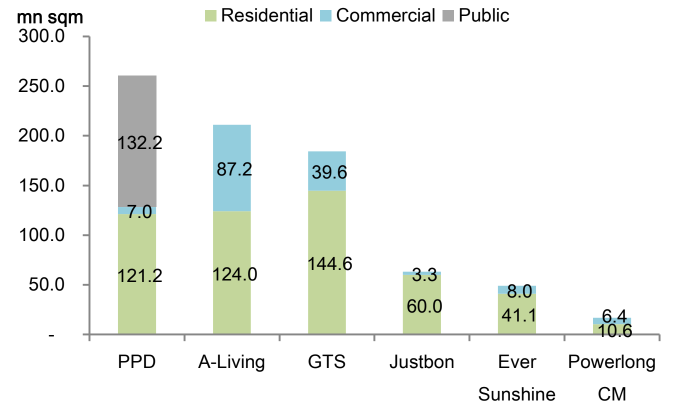
Source(s): Bloomberg, ABCI Securities estimates

Continuous policy supports amid the epidemic crisis

Various supports from local governments. The Hangzhou government has recently announced several supportive measures to support enterprises amid the COVID-19 outbreak. In particular, it will provide a subsidy of RMB 0.5/sqm to local PMCs for two months based on their residential GFA under management. Shenzhen also adopts similar measures to help PMCs. As opposed to commercial property management (PM), whose income tends to fluctuate with the economic cycle, we believe the virus outbreak would have a limited impact on the management fee of residential projects, partially because of the complicated process entailed for fee revision. However, operating cost is likely to increase noticeably due to the adoption of closed-off management and higher prices of cleaning materials. The government's subsidies should be able to offset some of the extra cost incurred.

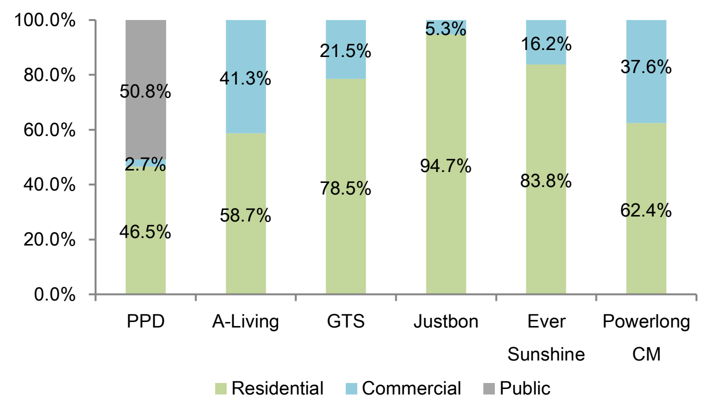
In contrary, revenue of commercial projects, which have relatively short contract terms, are more likely to be affected by the economic cycle. The media reported that shopping mall operators such as CR Land (1109 HK) and Future Land (1030 HK) had waived rental and management fee to support retail tenants. Powerlong Group (1238 HK) also announced that they had halved the rents for the first nine days (from Jan 25 to Feb 2, 2020) of CNY, although the management fee would stay the same. If the outbreak prolongs, PMCs may need to reduce the fees for commercial projects to support SMEs. We believe PMCs with a high proportion of residential projects, such as Justbon (2606 HK, 94.7% of total GFA under mgt.) and Ever Sunshine (1995 HK, 83.3%of total GFA under mgt.) would be more defensive in the current crisis. We also expect PPD's (6049 HK) public projects to be less cyclical due to their cost-plus pricing with an average gross margin of ~ 10%.

Exhibit 1: GFA under management by project type



* PPD= Poly Property Development; GTS= Greentown Services
Note: Only PPD discloses separate public and commercial projects figures
Source(s): Companies, ABCI Securities

Exhibit 2: GFA under management by project type as a percentage of total

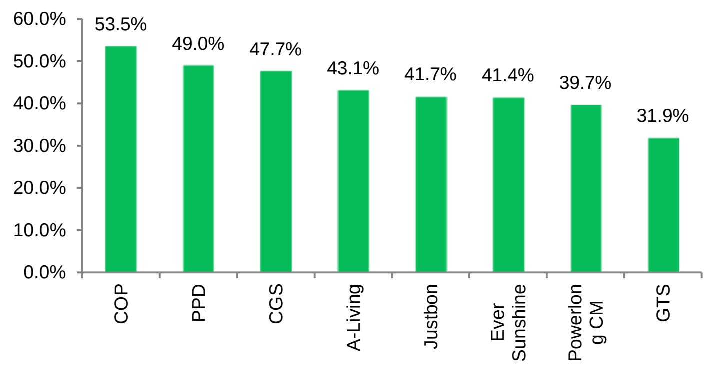


Source(s): Companies, ABCI Securities

Further easing on labor cost. The State Council has recently implemented a temporary reduction in the enterprise payments for the "three insurances", namely, the pension funds, jobless insurance, and work-related injury insurance to stabilize employment. All enterprises in the Hubei province can be exempted from the aforementioned insurance payments from Feb to June. For other provinces, MSEs can be exempted from the payments from Feb-June, while large enterprises are given a 50% reduction from Feb-Apr. The share of enterprise contributions to pension fund has already fallen from 20% to 16% from May 2019. The jobless insurance and work-related injury insurance should add up to 1-2% of staff cost, though the exact proportion varies across cities and provinces. We estimate the 50% cut from Feb-April would elevate 2020E core profit of the listed PMCs by 2.9-8.7% compared to the no-reduction scenario. Players with a relatively thin net margin and high staff costs such as PPD and COP

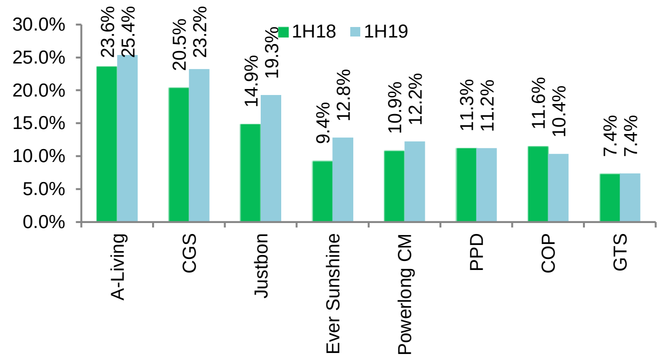
(2669 HK) should benefit the most from 50% cut in Feb- Apr. Given the development of the epidemic, it is still early to determine if the saving on staff cost could sufficiently offset the declining revenue from commercial projects and VAS to non-property owners (due to reduced contracted sales of parent companies) and higher standards of hygienic practices adopted during 2020.

Exhibit 3: PMCs' staff cost as a percentage of revenue



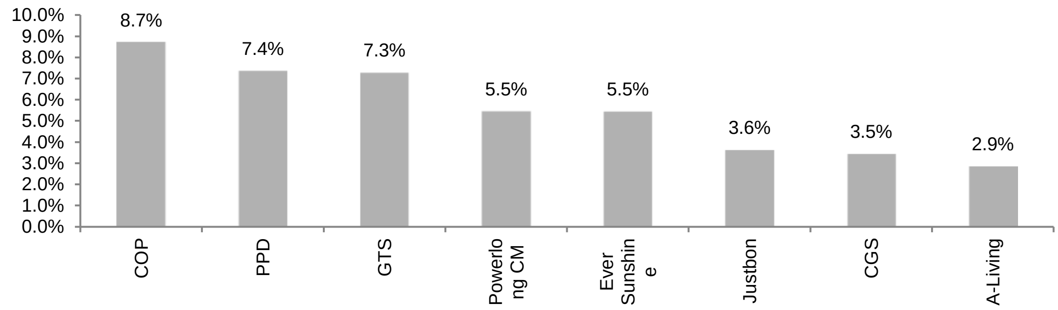
Source(s): Companies, ABCI Securities

Exhibit 4: PMCs' net margin



Source(s): Companies, ABCI Securities

Exhibit 5: Potential 2020E net profit enhancement vs. the no-reduction scenario



Source(s): Companies, ABCI Securities

The PM sector has enjoyed many tax-related benefits. The largest HK-listed PMC, Country Garden Services (CGS, 6098 HK), was taxed at a favorable rate of 15% from 2017-19 with its High and New Technology Enterprise status. We believe the government's positive stance will continue. The living service industry has been granted an extra 15% VAT deduction from Oct 2019 to Dec 2021; the VAT was completely waived subsequently in Jan 2020 until further notice. In our view, companies in the PM sector may be eligible for the related VAT concession in the future if the sector is qualified as life service industry.

Good timing for M&As. As a result of the COVID-19 outbreak, some of the small/mid developers may have to divest their non-core assets to ease cash flow pressure. We believe it presents a good opportunity for the HK-listed PMCs to expand their market share through M&As. In particular, we expect valuation of the M&A deals to decline since a growing number of regional developers may sell their PM operations for cash. Ever Sunshine acquired Qingdao Yinshengtai Property Management Services (QYPMS) at a historical P/E of 4.7x only, much lower than usual 11x-14x P/E range for M&As over the last 12 months.

Increasing CVAS revenue as residents opt to stay home

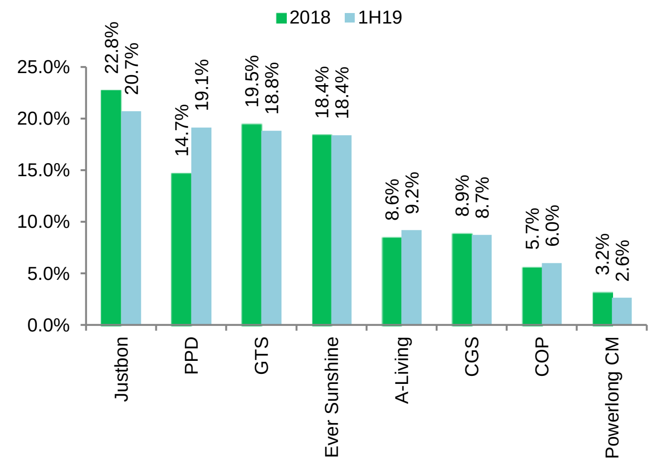
Last-mile delivery matters. Amid the virus outbreak, residents opt to stay home to minimize infection risk. The increased time spent at home means they are more likely to utilize PMC's CVAS such as grocery group purchases, home cleaning, repair, and maintenance services via PMC's proprietary apps. We believe the transaction volume as well as the number of first-time and active users for the apps would increase. While online shopping/ services have already been a structural trend for years in China, PMCs has been lagging far behind the online giant such as Alibaba and JD.com (JD US) in terms of scale and product diversity. However, PMCs stands out in terms of the last-mile delivery.

1) Familiar staff to deliver: the latest epidemic has increased apprehension of physical contact with unfamiliar individuals. Residents would prefer the PMC staff instead of those from the logistic companies to deliver their products;

2) Common area for temporary storage: residents may purchase in bulk for staples such as rice and toilet paper. The residential common area can serve as the temporary storage for residents unable to clear up space for the purchased goods at home. For low-price items such as fruits and vegetables, the logistic cost could cost more than the items if they are ordered separately. Instead, the common area could enable delivery of such items possible when the PMCs ordered in large lots and distribute to residents at a centralized point.

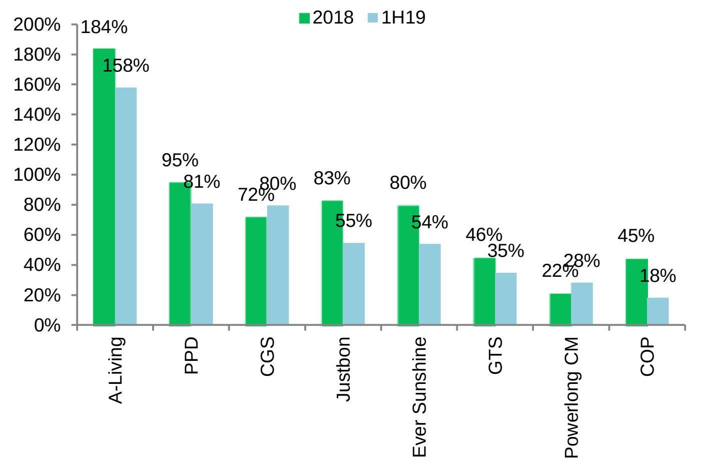
Given CVAS entails a higher gross margin than traditional PM business, therefore faster growth in the segment could lift overall margin. Among the listed players, Justbon and PPD are the key beneficiaries of the rising CVAS income, given that the segment represents 20.7% and 19.1% of 1H19 total revenue, much higher than the sector average of 13.0%.

Exhibit 6: CVAS as a percentage of total revenue



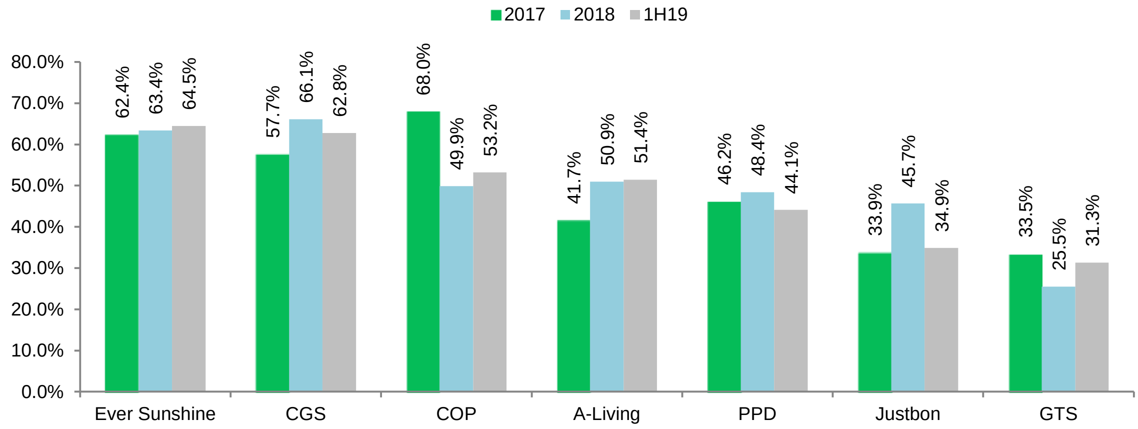
Source(s): Companies, ABCI Securities

Exhibit 7: CVAS revenue growth



Source(s): Companies, ABCI Securities

Exhibit 8: Gross margin of CVAS business



Source(s): Companies, ABCI Securities

VAS to non-property owners likely to suffer

Closure of sales centers and lower construction commencement reduce income. PMC's VAS to non-property owners (VASNPO) business mainly includes sales center management and home inspections, while others, such as A-Living and S-Enjoy (1755 HK), also include property agency and professional services (smart engineering). As a result of the virus outbreak, PMC's VASNPO is impacted by temporary closure of parents' sales centers in while inspection business is affected by possible deferred construction. We consider contracted sales of the parent companies to be an indicator for PMC's VASNPO business. In Jan 2019, contracted sales of PMC's parents dropped 15%YoY in GFA and 16%YoY in sales amount on average. Given the closure only began in late Jan, we can expect a more significant plunge in Feb contracted sales.

Exhibit 9: Contracted sales performance in Jan 2020

	PMC	Parent/related developers	BBG of parent	Amount RMBbn	YoY %	GFA 000 sqm	YoY %	ASP RMB/sqm	YoY %
1	CGS	Country Garden	2007 HK	32.9	0%	3,790	-1%	8,686	0%
2	PPD	Poly-A	600048 CH	23.6	-30%	1,576	-31%	14,970	2%
3	A-Living	Greenland	600606 CH	8.1	-47%	679	-47%	11,900	0%
4	COP	COLI*	688 HK	20.3	-18%	1,103	-12%	18,381	-7%
5	S-Enjoy	Seazen	1030 HK	11.2	2%	1,059	9%	10,577	-6%
6	Ever Sunshine	CIFI	884 HK	9.8	9%	626	6%	15,645	3%
7	A-Living	Agile	3383 HK	5.0	-19%	300	-27%	16,733	12%
8	AHL	Aoyuan	3883 HK	5.1	-10%	433	-16%	11,678	8%
9	Justbon	Languang	600466 CH	4.5	-19%	458	-33%	9,738	21%
10	Powerlong CM	Powerlong	1238 HK	3.5	10%	221	6%	15,911	5%
		Total		**123.9**	**-16%**	**10,246**	**-15%**	**12,095**	**-1%**

* in HKD

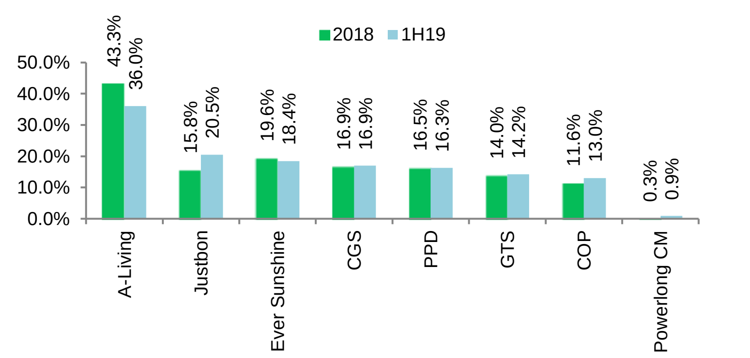
Source(s): Companies, ABCI Securities

Fee growth is possible with the help of parent groups

While contracted sales of developers are likely to fall in coming months, those with a PMC subsidiary would be willing to raise prices for VASNPO to make up for the loss from temporary closure of sales centers. As this business in the segment is considered as connected transactions, the pricing between parents and subsidiaries has to be on an arm-length basis. Since PMCs have to increase their cleaning and hygienic standards amid the virus outbreak, we think PMCs would be able to justify the price increase for the additional cost.

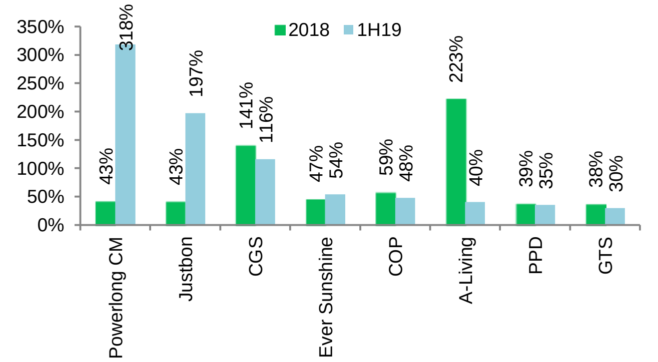
Another key metric we could refer to is the spending on VASNPO by the developers as a percentage of their contracted sales. Developers normally set aside 0.8%-1.0% of sales value as property agency commission fees. We gauge the ceiling of VASNPO spending as a percentage of a parent's sales amount – which we believe is fair because VASNPO is in the same value-added chain as sales agency. This ratio varies from 0.02% for Powerlong to 0.42% for A-Living as at 1H19. While we believe developers are more willing to pay agencies on the sales front a higher fee (0.8% of sales value) than for the VASNPO provided by the PMCs (0.02%-0.42%), the pricing for the latter still has much room for growth given the low percentage.

Exhibit 10: VASNPO revenue of PMCs and as a percentage of total revenue



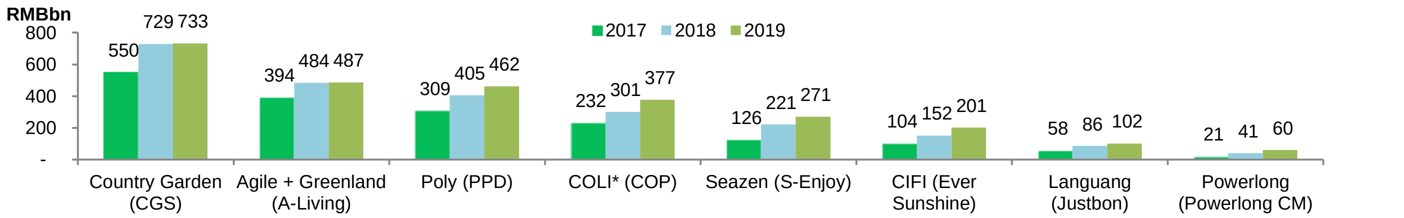
Source(s): Companies, ABCI Securities

Exhibit 11: VASNPO revenue growth



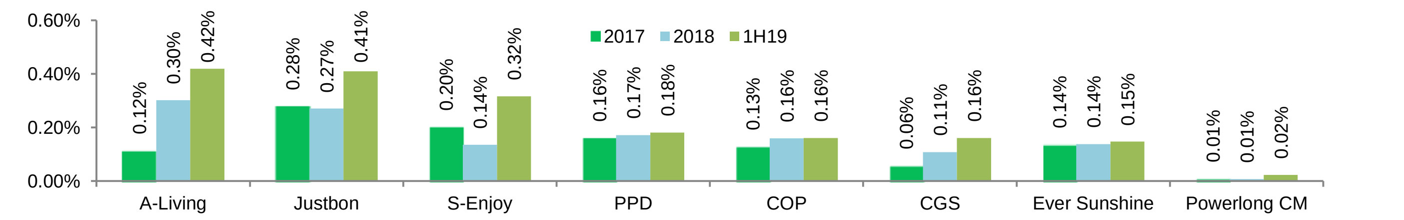
Source(s): Companies, ABCI Securities

Exhibit 12: Contracted sales of parent/ related developers



* in HK$
Source(s): Companies, ABCI Securities

Exhibit 13: VASNPO revenue as a percentage of parent/ related developers' contracted sales value

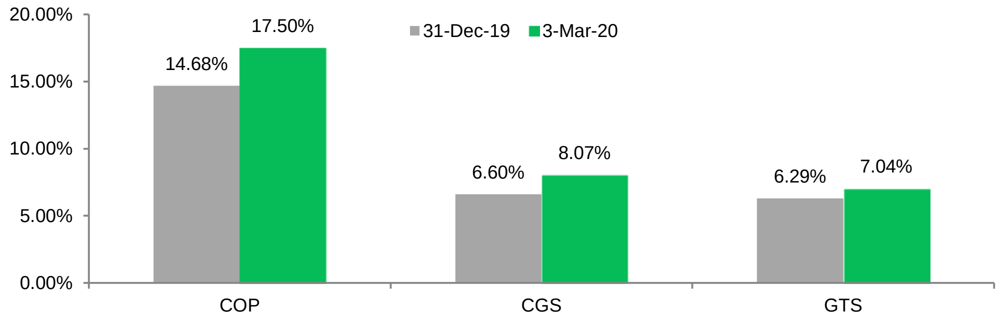


Source(s): Companies, ABCI Securities

Top pick: A-Living is attractively valued with strong M&A capability

More HK-listed PMCs could enjoy the southbound flow under the Stock Connect. With the inclusion of A-Living and PPD into the Hang Seng Composite Index after the recent review, there are altogether five HK-listed PMCs eligible for inclusion (CGS, COP and GTS being the remainders) for the southbound trading. Share prices of COP, CGS and GTS rose 42%, 22% and 23% YTD. We believe funds inflow from the southbound Stock Connect could be one of the drivers for the eligible stocks especially when only a few large-cap PMC stocks are listed in the A-share market. Inclusion to the Stock Connect could become a share price catalyst for A-Living and PDD in the near term.

Exhibit 14: Stake held by China Securities Depository And Clearing via Stock Connect as a percentage of free flow shares



Source(s): Companies, ABCI Securities

A-Living (3319 HK) is our top pick on attractive valuation and solid M&A execution. We believe the listed players should take the opportunities to expand their market share through M&A in times of crisis. Trading at 26.2x 2020E P/E (vs. peers' average of 36.7x), A-Living stands out as the most attractive large-cap player given its sizeable GFA under management after the acquisition of CMIG – we believe significant synergy will emerge in cost-saving and the development in public properties projects after the integration. A-living's experience in M&A would facilitate GFA growth. Inclusion into the Stock Connect would be a near-term share price catalyst for the counter. Maintain **BUY** with revised TP HK$ 50.60 (from HK$19.1) as we lower the WACC from 9% to 8% and factor in the CMIG acquisition; the adjustment is justified by the fact that valuation of PMC sector has increased significantly over the last few months

Justbon (2606 HK) is our preferred small/mid-cap player based on its acquisition track record over the past three years. Despite M&A accounts for ~50% of GFA addition each year, its margins have remained stable, reflecting the Group's ability in managing/restructuring the acquisition targets post integration. Justbon also has the highest percentage of total revenue from CVAS, which should benefit from the residential income driven by lifestyle changes amid the virus outbreak. Maintain **BUY** with TP at HK$ 63.90.

Exhibit 15: Valuation of the China property management sector

	PRC Property	Ticker	Mkt Cap HK$ (bn)	Share Price (HK$)	Performance 3M	YTD	2019	Valuation P/E			Yield (%)			P/B		
			(HKD bn)	(HK$)	% Chg	% Chg	% Chg	2018A	2019E*	2020E*	2018A	2019E*	2020E*	2018A	2019E*	2020E*
	Large PMC (GFA under management >100mn sqm)															
1	Country Garden Services	6098 HK	87.0	32.1	22	22	112	89.9	50.9	37.8	NA	0.5	0.6	17.1	15.8	12.1
2	A-Living	3319 HK	49.9	37.4	42	39	161	57.3	37.2	26.2	0.9	1.3	1.9	8.2	7.4	6.5
3	Poly Property Development	6049 HK	38.8	70.0	NA	50	33	102.9	69.1	49.2	0.0	0.4	0.5	53.3	5.5	5.1
4	Greentown Services	2869 HK	29.1	10.4	22	23	44	53.8	48.6	36.4	0.8	0.7	1.0	10.7	9.8	8.0
5	China Overseas Property	2669 HK	22.8	6.94	44	42	116	56.7	44.2	34.9	0.6	0.7	0.9	17.5	15.1	11.5
	Small/mid-sized PMC (GFA under management <100mn sqm)															
1	S-Enjoy	1755 HK	13.5	16.4	52	35	222	80.1	45.6	30.2	0.0	NA	NA	78.3	NA	NA
2	Ever Sunshine	1995 HK	13.0	8.47	82	60	199	69.4	50.9	34.6	0.3	0.5	0.7	12.9	10.8	8.7
3	Justbon	2606 HK	8.8	49.2	1	(1)	34	20.2	18.2	13.6	0.0	1.6	2.2	12.9	3.2	2.7
4	Powerlong CM	9909 HK	7.1	11.3	NA	16	3	47.5	32.8	22.7	0.0	0.9	1.3	27.5	3.4	3.0
5	Aoyuan Healthy	3662 HK	6.3	8.67	45	48	60	67.1	34.4	21.4	0.0	NA	NA	5.3	NA	NA
6	Kaisa Prosperity	2168 HK	4.2	30.3	57	45	187	35.9	25.1	19.0	0.0	1.0	1.3	7.5	6.7	5.2
	PMC Avg				**38**	**33**	**97**	**54.5**	**37.6**	**26.7**	**0.7**	**1.4**	**1.9**	**21.4**	**7.0**	**5.8**
	- Large PMC				**36**	**38**	**89**	**67.7**	**49.8**	**36.7**	**0.6**	**0.8**	**1.1**	**22.4**	**9.4**	**7.7**
	- Small/mid-sized PMC				**47**	**34**	**NA**	**53.4**	**34.5**	**23.6**	**0.1**	**1.0**	**1.4**	**24.1**	**6.0**	**4.9**

Source(s): Bloomberg, ABCI Securities estimates

Exhibit 16: Changes in major assumptions

	Rating		TP (HK$)			2019E core profit (RMBmn)			2020E core profit (RMBmn)		
	New	old	New	old	chg %	New	old	chg %	New	old	chg %
A-Living	BUY	BUY	50.60	19.10	165%	1,198	1,198	0%	1,701	1,677	1.4%
Ever Sunshine	BUY	BUY	9.70	4.70	106%	228	228	0%	336	383	-12%
PPD	BUY	BUY	66.30	66.30	0%	501	501	0%	704	704	0%
Justbon	BUY	BUY	63.90	63.90	0%	430	430	0%	574	574	0%
Powerlong CM	BUY	BUY	12.50	12.50	0%	193	193	0%	273	273	0%

Source(s): Companies, ABCI Securities estimates

Exhibit 17: 1H19 peer comparison by GFA (Large PMCs, GFA under management > 100mn sqm)

	A-Living (3319 HK)			Greentown Services (2869 HK)			China Overseas Property (2669 HK)			Colour Life (1778 HK)			Country Garden Services (6098 HK)			PPD (6049 HK)		
	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	FY18	1H19	HoH chg
GFA comparison																		
GFA under management (mn sqm)	**109**	**211**	**94%**	**151**	**184**	**22%**	**131**	**142**	**8%**	**334**	**365**	**9%**	**136.8**	**216.8**	**58%**	**191**	**260**	**37%**
- Residential	NA	124		120	145	21%	NA	NA		NA	NA		NA	NA		116	121	5%
- Non-residential & Public	NA	87		31	40	28%	NA	NA		NA	NA		NA	NA		75	139	86%
% as total GFA under management																		
- Residential	NA	59%		80%	79%	-1%	NA	NA		NA	NA		NA	NA		61%	47%	-14%
- Non-residential	NA	41%		21%	22%	1%	NA	NA		NA	NA		NA	NA		39%	53%	14%
GFA under management (mn sqm)	109	211	94%	**NA**	**NA**		**NA**	**NA**		**NA**	**NA**		136.8	216.8	58%	191	260	37%
- Developed by major shareholders/parent group	48	58	20%										121.9	172.4	41%	109	112	3%
- Third parties	61	153	152%										14.9	44.4	199%	81	148	83%
GFA under management (%)																		
- Developed by major shareholders/parent group	44%	28%	-17%	NA	NA		NA	NA		NA	NA		89%	80%	-10%	57%	43%	-14%
- Third parties	56%	72%	17%	NA	NA		NA	NA		NA	NA		11%	20%	10%	43%	57%	14%
Contracted GFA (mn sqm)	186	325	75%	311	391	26%	NA	NA		484	564	16%	386.0	584.2	51%	362	455	26%

Source(s): The Companies , ABCI Securities

Exhibit 18: 1H19 Peer comparison- GFA (Small/mid-sized players, GFA under management < 100mn sqm)

	Ever Sunshine (1995 HK)			Xingchengyue (1755 HK)			Kaisa Prosperity (2168 HK)			Aoyuan Healthy (3662 HK)			PCMH (9909 HK)		
	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	FY18	1H19	HoH chg
GFA comparison															
Commercial operational services (COS)															
GFA under management (mn sqm)										**NA**	**0.53**		**6.37**	**6.37**	**0%**
Contracted GFA (mn sqm)										**NA**	**1.60**		**6.92**	**7.52**	**9%**
Residential PM Services (RPMS)															
GFA under management (mn sqm)	**26.5**	**40.2**	**52%**	**36.3**	**42.9**	**18%**	**24.0**	**26.9**	**12%**	**9.9**	**12.0**	**21%**	**10.2**	**10.6**	**4%**
- Residential	22.3	32.8	47%				21.6	23.9	11%	NA	NA		NA	NA	
- Non-residential	4.2	7.4	78%				2.4	3.0	24%	NA	NA		NA	NA	
% as total GFA under management															
- Residential	84%	82%	-3%				90%	89%	-1%	NA	NA	NA		NA	NA
- Non-residential	15.8%	18.5%	2.7%				10%	11%	1%	NA	NA	NA		NA	NA
GFA under management (mn sqm)	**26.5**	**40.2**	**52%**	**36.3**	**42.9**	**18%**	**24.0**	**26.9**	**12%**	**9.9**	**12.0**	**21%**	**10.2**	**10.6**	**4%**
- Developed by major shareholders/parent group	13.2	14.6	11%	26.2	30.5	16%	20.7	22.6	9%	9.3	11.1	19%	10.2	10.6	4%
- Third parties	13.3	25.6	93%	10.1	12.4	23%	3.3	4.3	28%	0.6	0.9	53%	-	-	
GFA under management (%)															
- Developed by major shareholders/parent group	50%	36%	-13%	72%	71%	-1%	86%	84%	-2%	94%	92%	-2%	100%	100%	0%
- Third parties	50%	64%	13%	28%	29%	1%	14%	16%	2%	6%	8%	2%	0%	0%	0%
Contracted GFA (mn sqm)	33.4	65.6	96%	67.8	112.2	65%	29.7	32.2	9%	N A	N A		14.8	17.1	15%

Source(s): The Companies , ABCI Securities

Exhibit 19: 1H19 peer comparison by financial metrics (Large PMCs, GFA under management > 100mn sqm)

	A-Living (3319 HK)			Greentown Services (2869 HK)			China Overseas Property (2669 HK)			Colour Life (1778 HK)			Country Garden Services (6098 HK)			PPD (6049 HK)		
	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg
Financials comparison																		
Revenue (RMBmn)	**1,406**	**2,241**	**59%**	**2,927**	**3,663**	**25%**	**1,907**	**2,400**	**26%**	**1,757**	**1,812**	**3%**	**2,016**	**3,516**	**74%**	**1,916**	**2,822**	**47%**
- PMS revenue	750	1,227	64%	2,015	2,453	22%	1,574	1,938	23%	1,467	1,511	3%	1,564	2,586	65%	1,278	1,823	43%
- VAS revenue**	655	1,014	55%	912	1,211	33%	333	463	39%	290	301	4%	452	929	106%	638	999	57%
% as total revenue																		
- PMS revenue	53%	55%	1%	69%	67%	-2%	83%	81%	-2%	84%	83%	0%	78%	74%	-4%	67%	65%	-2%
- VAS revenue	47%	45%	-1%	31%	33%	2%	17%	19%	2%	16%	17%	0%	22%	26%	4%	33%	35%	2%
Gross profit (RMBmn)	**510**	**830**	**63%**	**551**	**706**	**28%**	**528**	**483**	**-9%**	**620**	**590**	**-5%**	**786**	**1,378**	**75%**	**443**	**667**	**50%**
Gross margin (%)	36.3%	37.0%	0.7%	18.8%	19.3%	0.5%	27.7%	20.1%	-7.6%	35.3%	32.6%	-2.7%	39.0%	39.2%	0.2%	23.1%	23.6%	0.5%
Gross Margin (%)	**36.3%**	**37.0%**	**0.7%**	**18.8%**	**19.3%**	**0.5%**	**27.7%**	**20.1%**	**-7.6%**	**35.3%**	**32.6%**	**-2.7%**	**39.0%**	**39.2%**	**0.2%**	**23.1%**	**23.6%**	**0.5%**
- PMS	29.0%	26.6%	-2.5%	11.9%	11.9%	0.0%	25.8%	16.8%	-9.0%	30.3%	26.5%	-3.8%	34.5%	36.1%	1.5%	18.0%	18.1%	0.2%
- VAS	44.6%	49.7%	5.0%	34.1%	34.2%	0.1%	36.8%	34.0%	-2.7%	60.7%	63.0%	2.4%	54.4%	47.9%	-6.5%	33.4%	33.6%	0.2%
Core net profit* (RMBmn)	**332**	**568**	**71.0%**	**217**	**271**	**25%**	**221**	**249**	**13%**	**175**	**216**	**23.2%**	**413**	**817**	**98%**	**216**	**316**	**46.0%**
Net margin (%)	23.6%	25.4%	1.7%	7.4%	7.4%	0.0%	11.6%	10.4%	-1.2%	10.0%	11.9%	1.9%	20.5%	23.2%	2.8%	11.3%	11.2%	-0.1%
	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg
Gross debt (RMBmn)	-	47	na	-	19	NA	-	-	NA	3,660	2,424	NA	-	-	NA	-	-	NA
Cash (RMBmn)	4,809	4,354	-9%	2,329	2,212	-5%	2,398	2,060	-14%	3,013	1,600	-47%	3,874	5,169	33%	1,812	1,903	5%
Net debt/ (Cash) (RMBmn)	**(4,809)**	**(4,307)**	**-10%**	**(2,329)**	**(2,193)**	**-6%**	**(2,398)**	**(2,060)**	**-14%**	**647**	**824**	**27%**	**(3,874)**	**(5,169)**	**33%**	**(1,812)**	**(1,903)**	**5%**
Total Equity (RMBmn)	5,510	5,773	5%	2,405	2,525	5%	1,129	1,312	16%	3,256	3,343	3%	2,330	4,530	94%	693	867	25%
Net gearing (%)	-87%	-75%	13%	-97%	-87%	10%	-212%	-157%	55%	20%	25%	5%	-166%	-114%	52%	-261%	-220%	42%

** VAS revenue= Revenue from CVAS + revenue from consulting services + other non-PMS revenue
Source(s): The Companies , ABCI Securities

Exhibit 20: 1H19 peer comparison by financial metrics (small/mid-sized player, GFA under management < 100mn sqm)

	Ever Sunshine (1995 HK)			S-Enjoy (1755 HK)			Kaisa Prosperity (2168 HK)			Aoyuan Healthy (3662 HK)			PCMH (9909 HK)		
	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg	1H18	1H19	YoY chg
Financials comparison															
Revenue (RMBmn)	**439**	**708**	**61%**	**500**	**856**	**71%**	**412**	**558**	**35%**	**267**	**392**	**47%**	**577**	**749**	**30%**
- RPMS revenue (ex VAS)	300	436	45%	335	398	19%	178	234	31%	141	179	26%	96	101	6%
- VAS revenue	138	271	96%	165	459	179%	235	325	38%	63	109	73%	17	27	56%
- COS revenue										63	104	65%	464	621	34%
% as total revenue															
- RPMS revenue (ex VAS)	68%	62%	-7%	67%	46%	-21%	43%	42%	-1%	53%	46%	-7%	17%	14%	-3%
- VAS revenue	32%	38%	7%	33%	54%	21%	57%	58%	1%	23%	28%	4%	3%	4%	1%
- COS revenue										24%	27%	3%	80%	83%	3%
Gross profit (RMBmn)	**126**	**210**	**67%**	**144**	**250**	**74%**	**141**	**191**	**36%**	**97**	**155**	**60%**	**151**	**198**	**31%**
Gross margin (%)	28.8%	29.7%	0.9%	28.8%	29.2%	0.4%	34.2%	34.3%	0.1%	36.2%	39.6%	3.4%	26.1%	26.4%	0.3%
Gross Margin (%)	**28.8%**	**29.7%**	**0.9%**	**28.8%**	**29.2%**	**0.4%**	**34.2%**	**34.3%**	**0.1%**	**36.2%**	**39.6%**	**3.4%**	**26.1%**	**26.4%**	**0.3%**
- RPMS	23.7%	20.8%	-2.9%	27.7%	28.1%	0.4%	37.2%	34.1%	-3.1%	NA	NA	NA	28.9%#	29.3%#	0.4%
- VAS	39.9%	44.1%	4.2%	30.9%	30.1%	-0.8%	31.9%	34.4%	2.5%	NA	NA	NA	NA	NA	NA
- COS										NA	NA	NA	14.7%	12.4%	-2.3%
Core net profit* (RMBmn)	**41**	**91**	**120%**	**55**	**117**	**115%**	**63**	**92**	**45%**	**36**	**90**	**152%**	**60**	**87**	**46%**
Net margin (%)	9.4%	12.8%	3.4%	10.9%	13.7%	2.8%	15.3%	16.4%	1.1%	13.4%	22.9%	9.6%	10.3%	11.6%	1.3%
	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg	Dec17	Dec18	YoY chg
Gross debt (RMBmn)	-	-	NA	-	-	NA	-	-	NA	-	2	NA	388	634	NA
Cash (RMBmn)	438	1,170	167%	633	1,278	102%	115	709	515%	164	200	22%	114	1,040	809%
Net debt (RMBmn)	**(438)**	**(1,170)**	**167%**	**(633)**	**(1,278)**	**102%**	**(115)**	**(709)**	**515%**	(164)	(199)	21%	274	(406)	-248%
Total Equity (RMBmn)	245	903	269%	189	867	359%	305	506	66%	111	126	14%	96	230	139%
Net gearing (%)	-179%	-130%	49%	-335%	-147%	188%	-38%	-140%	-102%	-148%	-157%	-9%	284%	-177%	-461%

* Core profit= Net profit–Deferred tax adjustment– (Other (losses)/gains-net + Other exceptional items) x 0.75; # Included VAS
Source(s): The Companies , ABCI Securities

Risk factors

- **Interest rate cut may affect interest income:** The market generally expects China to lower interest rate further to boost economic growth. However, lower interest rate is unfavorable to cash-rich PM sector. Our sensitivity analysis shows that for every 10bps cut in interest rate, 2020E net profit would drop by 0.50% on average. Having said that, borrowing rate cut may only partially translate into lower deposit rate.

Exhibit 21: Earnings sensitivity on interest rate cut

		2020E Net profit change vs. interest rate change	
		-10bps	-20bps
PMCs			
Poly Property	6049 HK	-0.80%	-1.61%
Languang	2606 HK	-0.35%	-0.70%
Ever Sunshine	1995 HK	-0.21%	-0.37%
A-Living	3319 HK	-0.27%	-0.54%
Powerlong CM	9909 HK	-0.87%	-1.74%
Average		**-0.50%**	**-0.99%**

Source(s): Bloomberg, ABCI Securities estimates

- **Cash flow pressure from parents may result in lower GFA growth:** Developers' contracted sales may see significant decline in coming months, which could result in delay in home construction on tight cash flow. Slower GFA completion of parent developers will affect the PMCs' upcoming pipelines.

- **Possible management fee cut:** Some shopping mall operators such as CR Land (1109 HK) and Future Land (1030 HK) have waived the rental and management fees to support retail tenants amid the coronavirus outbreak. If the outbreak prolongs, fee rates for residential projects may need to be reduced.

- **Fundraising to support parent companies:** As the parent developers suffer from weaker contracted sales, it is not impossible for PMCs subsidiaries to leverage its recurring cash flow to raise low-cost bank borrowing or asset-backed securities (ABS) and lend it to the parent companies. Nonetheless, such practice will compromise corporate governance.

Company reports included in this sector report

- **A-Living (3319 HK)- p13**

- **Eversunshine (1995 HK)- p21**

Company reports published on PM Sector over last three months

(Please click on title to download file)

**No changes in TP & forecast since last updates*

Feb 14 2020- Powerlong CM (9909 HK)

Feb 5 2020- Poly Property Development (6049 HK)

Jan 15 2020- Languang (2606 HK)

農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

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)

Company Report
Mar 6, 2020
Rating: BUY
TP: HK$ 50.60

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

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

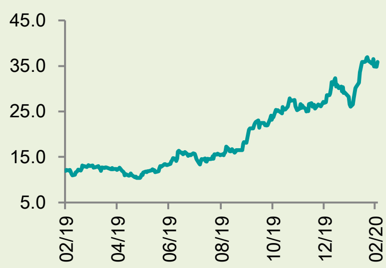
Share Performance (%)

	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

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

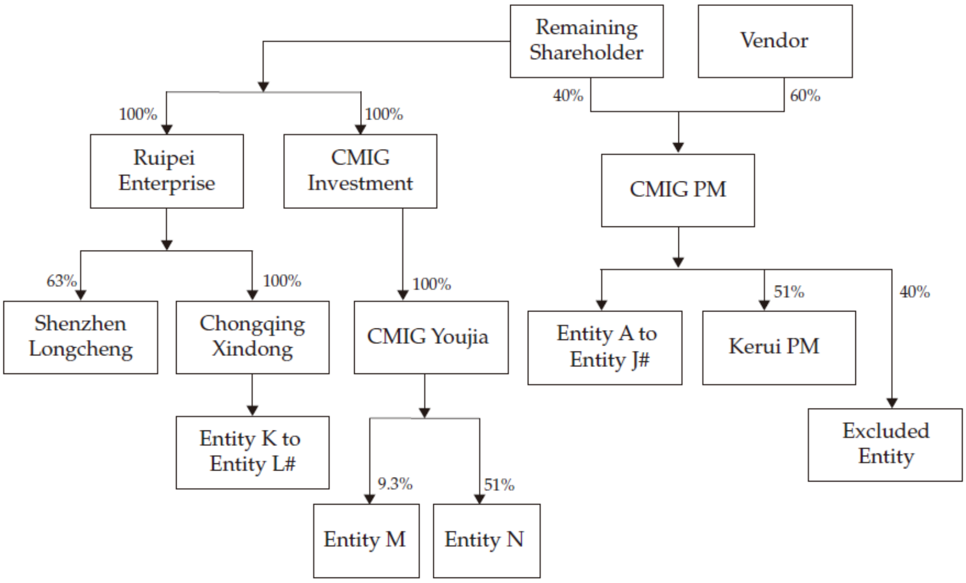
* Excluding exceptional items such as exchange gains and listing expenses
** RMB /HKD: 1.11
Source(s): Bloomberg, ABCI Securities estimates

Analysis of CMIG acquisition

Deal structure

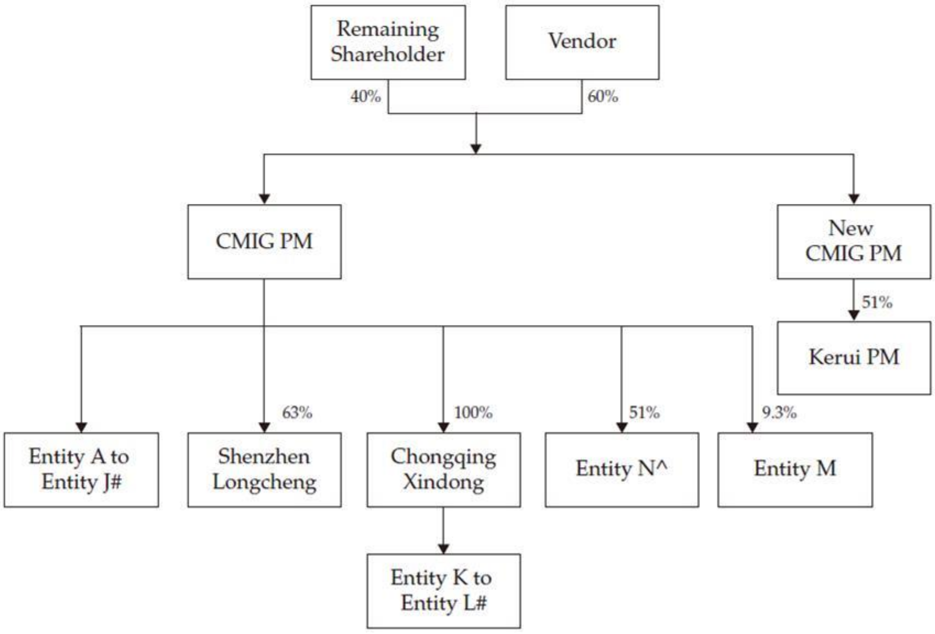
- Acquiring: 1) a 60% stake in **CMIG PM** at a fixed consideration of RMB 1.56bn, based on 12.5x 2019E guaranteed profit of RMB 208mn; and 2) a 60% stake in **new CMIG PM** at variable consideration not higher than RMB500mn, also based on 12.5x of estimated profit of new CMIG PM

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



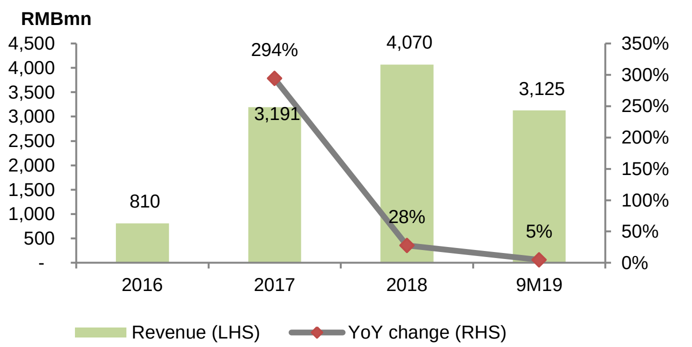
Source(s): Company, ABCI Securities

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.

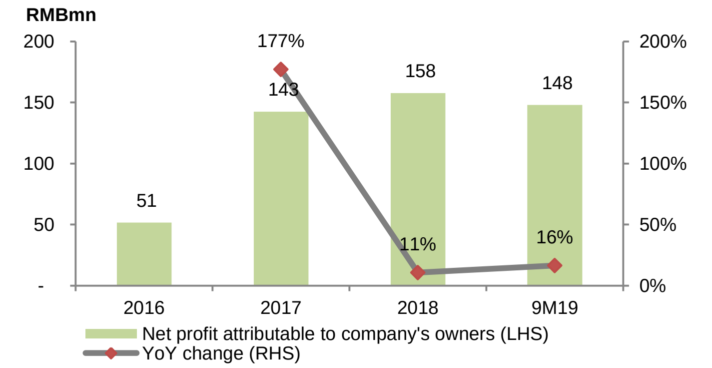
- **Sharp revenue and profit jump in 2017 on M&As:** Revenue figures of CMIG PM (before reorganization) jumped 294%YoY in 2017 but slowed to 28%YoY in 2018 and 5% YoY in 9M19. We believe the impressive growth in 2017 was due to the significant acquisitions during the year, as intangible assets soared 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

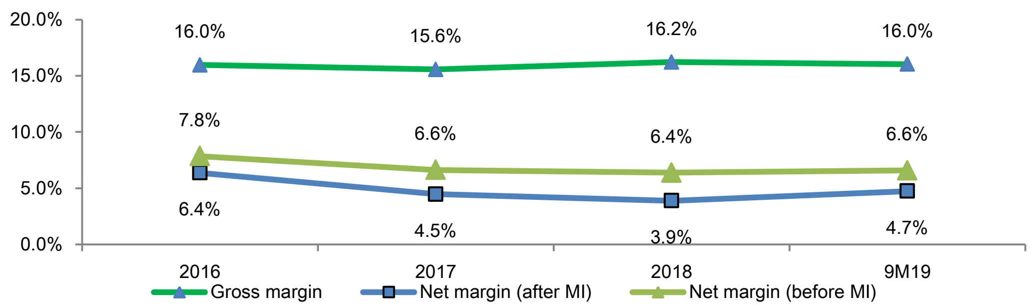
Exhibit 4: Net profit attributable to owners of CMIG PM (before reorganization)



Source(s): Company, ABCI Securities

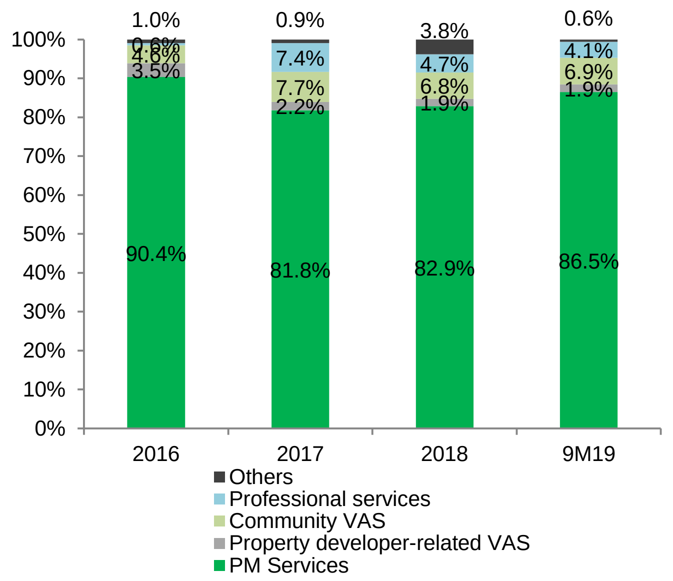
- **Room for margin improvement:** CMIG PM's gross margin was steady at 15%-16% in the past three years, which was much lower than A-Living's 37.0% in 1H19. PM services, which entailed a lower margin than VAS, represented 82.9% and 86.5% of total revenue in 2018 and 9M19. Net margin (before MI) was 6.4% 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



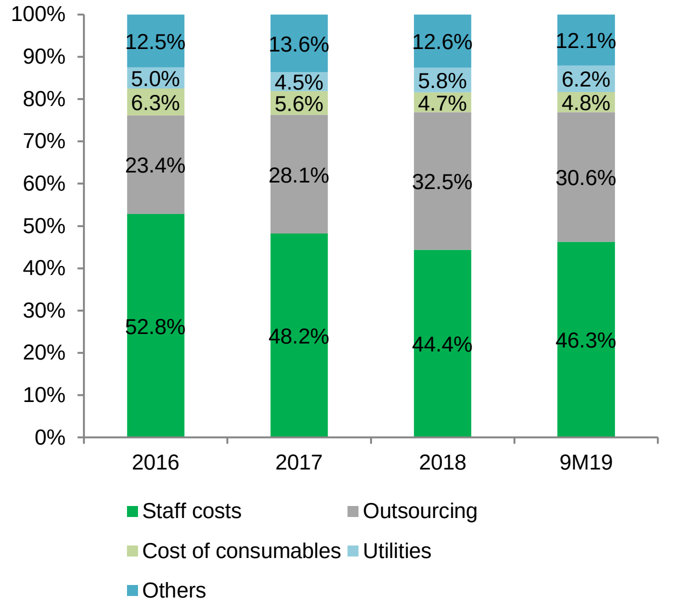
Source(s): Company, ABCI Securities

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 reorgransation, 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).

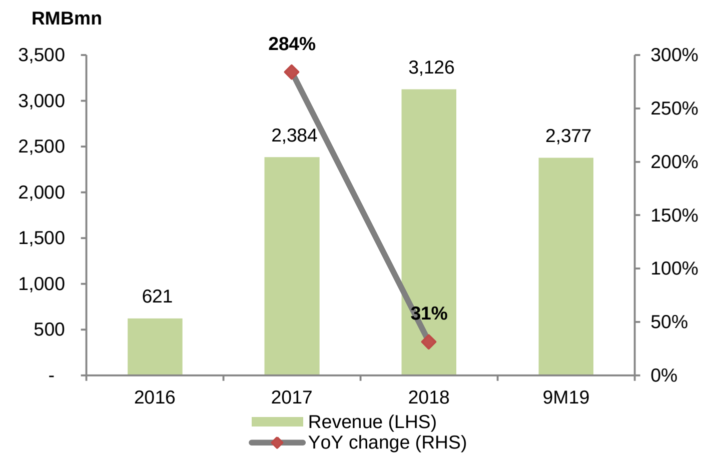
Exhibit 8: Adjusted figures after reorganization

	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

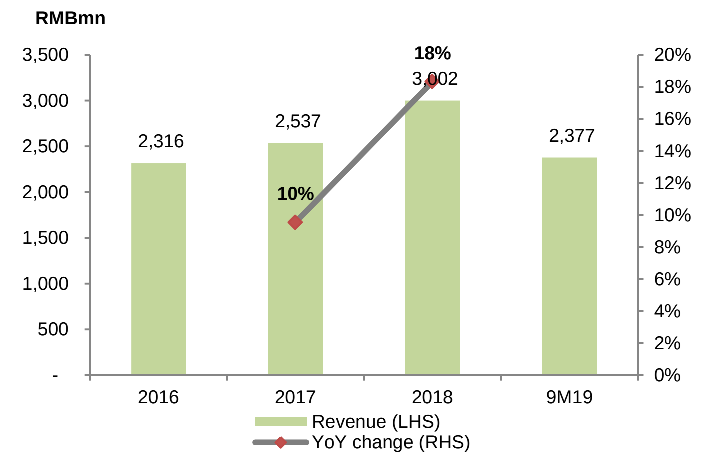
- **Steady like-for-like growth of acquisition targets reflected smooth integration:** Unadjusted revenue growth of CMIG PM (excl. Kerui) was 284% YoY on significant acquisitions in 2017 but slowed to 31% YoY in 2018. Adjusted figures were also disclosed by 1) adding the pre-acquisition revenue of subsidiary 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)
Enterprise value	**55,570**	
2020E Net cash/ (Debt)	4,907	
2020E Equity value (RMBmn)	**60,477**	
2020E Equity value (HK$mn)	**67,432**	
No. of shares (mn)	1,333	
TP (HK$)	**50.60**	

Source(s): Company, ABCI Securities estimates

Exhibit 12: Changes in TP and profit forecasts

	New	Old	Chg	Reasons
TP (HK$)	50.60	19.10	164.9%	Reduce WACC from 9% to 8%; factoring in CMIG acquisition
Core profit (RMBmn)				
- 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
Revenue	1,761	3,377	5,278	9,059	12,946
Direct costs	(1,170)	(2,087)	(3,314)	(6,046)	(8,653)
Gross Profit	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)
EBIT	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)	-	-	-	-
Profit before tax	403	1,075	1,619	2,415	3,513
Tax	(102)	(264)	(405)	(604)	(878)
Profit after tax	300	811	1,214	1,812	2,635
Minority interest	(10)	(10)	(17)	(111)	(264)
Reported net profit	290	801	1,198	1,701	2,371
Less: exceptional items	12	-23	0	0	-0
Core net profit	302	778	1,198	1,701	2,371
Per share					
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
Growth %					
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%
Margin %					
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%
Revenue breakdown					
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
Key assumptions					
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
Current assets	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
Non-current assets	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
Total Assets	2,511	7,297	8,428	10,777	13,551
Current Liabilities	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
Non-current liabilities	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
Total Liabilities	1,037	1,787	2,302	3,691	5,015
Net Assets	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
Total Equity	1,474	5,510	6,125	7,086	8,536
Key ratio					
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)
Operating Cash flow	287	790	1,572	2,424	3,254
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)
Investing Cash flow	49	(19)	(500)	(1,968)	110
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
Financing Cash flow	20	3,157	(589)	(841)	(1,176)
Net cash inflow/ (outflow)	357	3,928	483	(385)	2,188
Cash- beginning	523	880	4,808	5,291	4,906
Cash- year-end	880	4,808	5,291	4,906	7,094

Source(s): Company, ABCI Securities estimates

Ever Sunshine (1995 HK)
Growing by acquisitions

- ES acquired a 50% stake in QYPMS at 4.7x historical P/E only
- ES's CVAS business should benefit as residents spend more time at home during the coronavirus outbreak
- Maintain **BUY** with revised TP of HK$9.70 based on DCF valuation with a WACC of 9%

Company report

Mar 6, 2020

Rating: BUY

TP: HK$ 9.70

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

Share price (HK$)	8.47
Est. share price return	14.5%
Est. dividend yield	0.6%
Est. total return	15.1%
Previous Rating &TP	4.70
Previous Report Date	25 Jul 2019

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK$)	8.6/2.6
Issued shares (mn)	1,536
Market cap (HK$ mn)	13,010
3-month avg daily turnover (HK$ mn)	41.07
Major shareholder(s) (%):	
Lin's Family	68.8

Source(s): Bloomberg, ABCI Securities

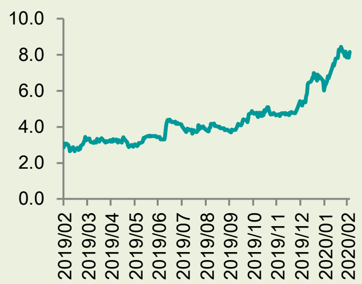
Share Performance (%)

	Absolute	Relative*
1-mth	21.2	22.5
3-mth	69.9	70.9
6-mth	101.0	104.5

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK$)



Source(s): Bloomberg, ABCI Securities

Attractively priced acquisition of Qingdao Yinshengtai Property Management Services (QYPMS). In Feb 2020, Ever Sunshine (ES) announced to acquire a 50% stake in Qingdao Yinshengtai Property Management Services (QYPMS) at RMB 8.644mn. The target company has 18 projects, mainly located in Qingdao and Jinan, with an estimated total GFA under management of 3.2mn sqm. The transaction implies a historical P/E of 4.7x only (vs. 11-14x for previous M&As in the sector over the last 12 months), based on 2019 net profit of RMB 3.67mn (+1% YoY). QYPMS 's revenue jumped 21% YoY to RMB 92mn in 2019, but net margin was at 4.0% (-0.8ppt YoY), much lower than the peer average of 13.6%. We believe its margin can be boosted with the introduction of CVAS as well as better cost control supported by the economies of scale after the integration. The transaction reflected ES ability to attain bargain deals amid the COVID-19 outbreak.

Community value-added services (CVAS) set to grow faster on increased use during the coronavirus outbreak. Many major cities in China, such as Beijing, Shanghai and Guangzhou, demand the residential communities to adopt a closed-off management for epidemic prevention and control. To minimize infection risk, residents opt to stay home, which would encourage the habitual use of CVAS provided by property management. Revenue from CVAS grew 162%YoY to RMB 141mn in 1H19, accounting for 19.3% of ES's total revenue (+1.6ppt compared to FY18).

Maintain BUY with revised TP of HK$ 9.70. We lower our net profit forecast by 12.3% for 2020E on subdued outlook of the Group's VASNPO business as contracted sales of its parent are likely to slow. Our DCF-based TP is lifted to HK$ 9.70 (from HK$ 4.70) as we change our WACC from 11% to 9% given reduced assets risk, as its high proportion of residential GFA should benefit from favorable polices launched. Maintain **BUY.**

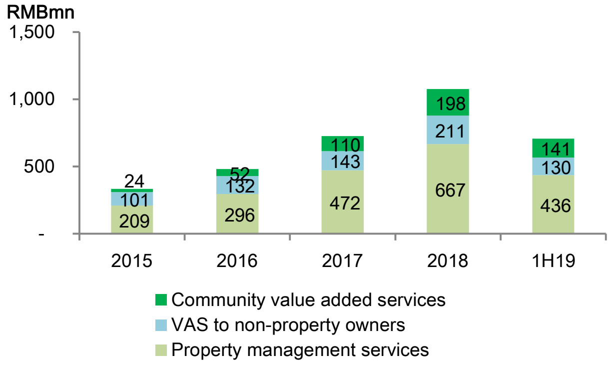
Risk factors: 1) Lack of a comprehensive online platform for O2O services; 2) Substantial amount of related-party transactions (19.5% of total revenue in 2018); 3) Rising SG&A due to integration of acquired companies.

Results and Valuation

FY ended Dec 31	2017A	2018A	2019E	2020E	2021E
Revenue (RMB mn)	725	1,076	1,931	2,917	4,089
Chg (%,YoY)	51.1	48.3	79.5	51.0	40.2
Core profit (RMB mn)	76	126	228	336	501
Chg (%,YoY)	127.5	64.7	81.4	47.1	49.3
EPS (RMB)	0.07	0.11	0.15	0.22	0.33
Chg (%,YoY)	127.5	59.8	36.3	47.1	49.3
BVPS (RMB)	0.22	0.59	0.70	0.87	1.12
Chg (%,YoY)	45.8	167.8	19.7	24.2	29.1
P/E (x)	110.9	69.4	50.9	34.6	23.2
P/B (x)	34.6	12.9	10.8	8.7	6.7
ROE (%)	31.2	11.2	21.2	25.1	29.0
ROA (%)	10.9	6.7	13.3	16.0	19.0
DPS (HK$)	-	0.02	0.04	0.05	0.08
Yield (%)	-	0.3	0.4	0.6	1.0
Net gearing (%)	Net Cash	Net Cash	Net cash	Net cash	Net cash

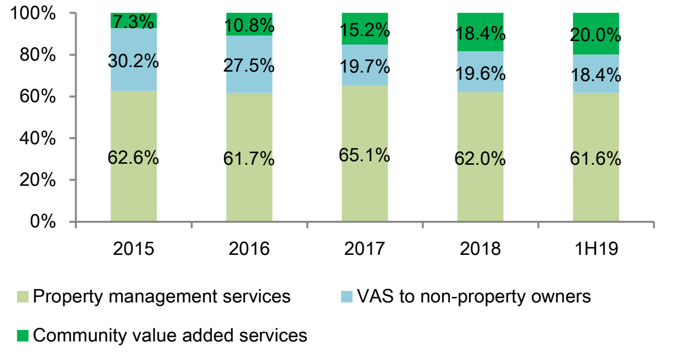
Source(s): The Company, ABCI Securities estimates

Exhibit 1: Ever Sunshine's revenue by business segment



Source(s): Company, ABCI Securities

Exhibit 2: Ever Sunshine's revenue by business segment as a percentage of revenue



Source(s): Company, ABCI Securities

Exhibit 3: Changes in TP and profit forecast

	New	Old	Change	Reason
TP (HK$)	9.70	4.70	106.4%	Reduce WACC from 11% to 9%
Core profit (RMBmn)				
- 2019E	228	228	-	
- 2020E	336	383	(12.3%)	Lower revenue from VAS to NPO due to slower presales activities from CIFI amid the coronavirus outbreak

Source(s): Company, ABCI Securities estimates

Financial statements

Consolidated income statement (2017A-2021E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Revenue	725	1,076	1,931	2,917	4,089
Cost of services	(542)	(767)	(1,369)	(2,049)	(2,863)
Gross Profit	183	309	562	867	1,226
Administrative expenses	(88)	(166)	(255)	(392)	(531)
EBIT	95	143	308	476	695
Other income	10	16	5	5	5
Finance cost	-	(0)	-	-	-
Finance income	-	-	10	9	12
Share of results of associates	1	9	-	-	-
Exceptional items	-	(25)	-	-	-
Other expenses	(1)	(1)	-	-	-
Profit before tax	105	142	322	490	712
Tax	(28)	(42)	(81)	(122)	(178)
Profit after tax	76	100	242	367	534
Minority interest	-	0	(14)	(32)	(33)
Net profit	76	101	228	336	501
Core profit*	76	126	228	336	501
Per share					
EPS (RMB)	0.07	0.11	0.15	0.22	0.33
DPS (HK$)	-	0.02	0.04	0.05	0.08
Payout ratio (%)	0%	21%	25%	25%	25%
BVPS (RMB)	0.22	0.59	0.70	0.87	1.12
Growth %					
Revenue	51.1%	48.3%	79.5%	51.0%	40.2%
Gross Profit	74.8%	68.9%	82.0%	54.3%	41.3%
EBIT	135.4%	50.7%	114.8%	54.7%	46.2%
Core profit	127.5%	64.7%	81.4%	47.1%	49.3%
Margin %					
Gross margin	25.2%	28.7%	29.1%	29.7%	30.0%
EBIT margin	13.1%	13.3%	15.9%	16.3%	17.0%
Core net margin	10.5%	11.7%	11.8%	11.5%	12.3%
Revenue breakdown					
Property management services	472	667	1,360	2,228	3,213
VAS to non-property owners	143	211	251	266	290
Community value added services	110	198	319	423	585
Total	725	1,076	1,931	2,917	4,089
Key assumptions					
Contracted GFA (mn sqm)	33.4	65.6	102.3	147.5	197.3
GFA under management (mn sqm)	26.5	40.2	71.4	107.6	147.4

* Excluding listing expenses and other exceptional items

Source(s): The Company, ABCI Securities estimates

Consolidated balance sheet (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Current assets	617	1,384	1,158	1,558	2,117
Bank balances and cash	438	1,160	795	1,025	1,373
Pledged bank deposit	0	10	10	10	10
Trade receivables	121	162	301	471	683
Inventories	0	0	0	0	0
Income tax recoverable	2	0	0	0	0
Other current assets	55	51	51	51	51
Non-current assets	85	109	564	538	516
Property, plant and equipment	15	27	37	47	57
Intangible assets	0	0	214	178	146
Goodwill	17	17	248	248	248
Other non-current assets	53	65	65	65	65
Total Assets	702	1,493	1,721	2,096	2,633
Current Liabilities	445	574	612	695	810
Accruals and other payables	265	287	287	287	287
Contract liabilities	120	171	171	171	171
Trade payables	37	72	110	192	308
Other current liabilities	24	44	44	44	44
Non-current liabilities	12	16	16	16	16
Deferred Tax Liabilities	12	16	16	16	16
Total Liabilities	458	590	628	711	826
Net Assets	245	903	1,093	1,385	1,807
Shareholders' Equity	245	899	1,076	1,336	1,725
Minority Interest	0	4	17	49	82
Total Equity	245	903	1,093	1,385	1,807
Key ratio					
Gross debt (RMB mn)	-	9	9	9	9
Net debt/ (cash) (RMB mn)	(438)	(1,151)	(785)	(1,016)	(1,363)
Net gearing (%)	-179%	-128%	-72%	-73%	-75%

Source(s): The Company, ABCI Securities estimates

Consolidated cash flow statement (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
EBITDA	97	145	325	511	727
Change in Working Capital	108	55	(101)	(87)	(96)
Tax payment	(15)	(25)	(81)	(122)	(178)
Operating Cash flow	190	175	143	302	453
Purchase of PP&E	(3)	(15)	(10)	(10)	(10)
Acquisition of subsidiary/ associate	(2)	0	(462)	0	0
Purchase of financial assets	(393)	(198)	0	0	0
Proceeds from disposal of financial assets	414	198	0	0	0
Others	(22)	9	10	9	12
Investing Cash flow	(6)	(6)	(462)	(1)	2
Interest received	5	0	0	0	0
Equity raised	0	597	0	0	0
Dividend to shareholders	(10)	(25)	(51)	(75)	(113)
Others	7	(28)	5	5	5
Financing Cash flow	2	553	(46)	(70)	(108)
Net cash inflow/ (outflow)	186	722	(365)	230	348
Cash- beginning	252	438	1,160	795	1,025
Cash- year-end	438	1,160	795	1,025	1,373

Source(s): The Company, ABCI Securities estimates

Disclosures

Analyst Certification

I, Tung Yiu Kei Kenneth, being the person primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to the listed company (ies) covered in this report, and I and/or my associates do not serve as officer(s) of the listed company (ies) covered in this report.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the report.

Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate (10%)
Hold	- Market return (-10%) ≤ 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.

Disclaimers

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