



Colour Life (1778 HK) 2018E earnings to jump on injection

- Colour Life's net profit increased 71%YoY to RMB 321mn in FY17
- Value-added services (VAS) revenue increased 76%YoY to RMB 277mn, driven by growing active users of Caizhiyun app
- We forecast CL's net profit to jump 79%YoY on the back of Wangxiangmei (WXM) injection in 2018
- Maintain **BUY** with revised DCF-derived TP of HK\$ 8.00

Accelerating growth in VAS revenue. Colour Life (CL)'s reported net profit jumped 71% YoY to RMB 321mn in FY17, as revenue increased 21% YoY to RMB 1.6bn. Excluding the effect of non-cash share option expenses and other one-off items, core net profit rose 25% YoY to RMB 330mn, in line with our forecast. While revenue-bearing GFA was growing slower than expected (only +1%YoY to 294mn sqm), VAS revenue, which increased 76% YoY to RMB 277mn, performed better than expected. CL's online platform Caizhiyun app had a transaction turnover of RMB 7,614mn in FY17 (+228% YoY) as registered users and active users reached 10.3mn (+151%YoY) and 3.5mn (+44%YoY). In particular, Colour Wealth Life Value-added Plan, an online wealth management products, recorded a total turnover of RMB 5,681mn, up 212% YoY; Colour Life Property, a service offered to developers in tier 3/4 cities to facilitate inventory clearance, sold 10,057units (including car park) in 2017, up 123% YoY.

We expect a 79%YoY earnings jump after injection of WXM. The injection of Wangxiangmei (WXM), previously the Wanda property management company, from Fantasia (1777 HK), was completed in Feb 2018. WXM operates 132 projects with a total GFA of 64.06mn sqm, of which 42.85mn sqm have been contracted and CL has the right of first refusal for the remaining area. In 10M17, WXM's net profit jumped 15x to RMB 235mn as a result of cost restructuring efforts and growing revenue-bearing GFA. As WXM has a higher management fee rate based on the greater mix of commercial projects, the injection will enhance both earnings and margins. CL will introduce its online platform to WXM in 2018, which we believe will boost to VAS revenue further. Overall, we expect CL's core profit to jump 79% YoY in 2018E to RMB 591mn.

Maintain BUY with revised TP of HK\$8.00. We factor in the better-than-expected VAS business and net gearing (due to slower M&A) in our forecast and raise our DCF-derived TP to HK\$ 8.00 (from HK\$ 6.45) based on a WACC of 10%. CL is now trading at 11.9x 2018E P/E, vs. the sector average of 18.7x. With robust earnings growth prospects supported by WXM injection and fast-growing VAS business, such heavy discount is unwarranted in our view. Maintain **BUY**.

Risk factors: 1) Lower pipeline visibility compared to parent-dependent PMCs; 2) Mounting SG&A expenses due to post-M&A integration; 3) Significant share option expenses (~6% of o/s issued shares). 4) EPS dilution of new shares issuance in 2018.

Results and Valuation

FY ended Dec 31	2016A	2017A	2018E	2019E	2020E
Revenue (RMB mn)	1,342	1,629	3,526	4,012	4,613
Chg (% YoY)	62.2	21.4	116.5	13.8	15.0
Core net profit (RMB mn)*	264	330	591	701	888
Chg (% YoY)	5.0	25.0	78.9	18.6	26.6
Core EPS (RMB)	0.26	0.33	0.45	0.53	0.67
Chg (% YoY)	5.0	25.0	35.6	18.6	26.6
BVPS (RMB)	1.46	1.72	2.54	2.79	3.13
Chg (% YoY)	15.8	18.0	47.4	10.1	11.9
Core P/E (x)	20.2	16.2	11.9	10.1	7.9
P/B (x)	3.7	3.1	2.1	1.9	1.7
ROE (%)	20.0	18.1	19.2	17.7	19.0
ROA (%)	9.3	6.6	7.1	8.0	9.0
DPS(HK\$)	0.10	0.15	0.20	0.24	0.31
Yield (%)	1.5	2.3	3.1	3.7	4.7
Net gearing (%)	5.9	14.8	44.2	27.1	10.6

* Adjusted for share option expenses and one-off items

Source(s): Bloomberg, ABCI Securities estimates

Company Report Mar 20, 2018

Rating: **BUY**
TP: **HK\$ 8.00**

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Share price (HK\$)	6.55
Est. share price return	22.1%
Est. dividend yield	3.1%
Est. total return	25.2%
Previous Rating & TP	BUY; HK\$6.45
Previous Report Date	13 Mar 2018

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	5.9/4.26
Issued shares (mn)	1,314
Market cap (HK\$ mn)	8,607
3-mth avg daily turnover(HK\$ mn)	8.97
Major shareholder(s) (%)	
Fantasia Holding	72.46%

Source(s): Bloomberg, ABCI Securities

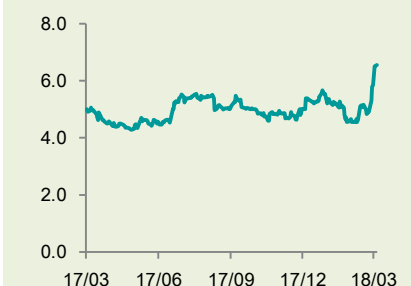
Share Performance

	Absolute	Relative*
1-mth	48.1	46.1
3-mth	26.7	17.4
6-mth	28.4	14.1

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year share performance(HK\$)



Source(s): Bloomberg, ABCI Securities

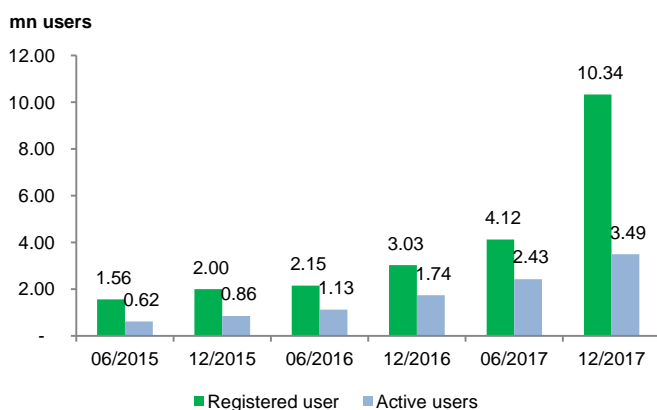


Exhibit 1: CL's 2017 results

P&L	2017	2016	YoY Chg	Operating statistics	2017	2016	YoY Chg
	RMBmn	RMBmn	(%)				
Turnover	1,629	1,342	21.4	Contracted GFA (mn sqm)	436	395	10.5
Cost of Sales & direct operating costs	(898)	(756)	18.7	Revenue bearing GFA (mn sqm)	294	291	1.0
Gross Profit	731	586	24.7				
Gross Margin (%)	44.9	43.6	+1.2ppt				
Selling and distribution costs	(26)	(13)	94.2	Balance sheet	Dec-17	Dec-16	HoH %
Administrative expense	(232)	(218)	6.2		RMBmn	RMBmn	
EBIT	473	354	33.6	Gross debt	1,505	1,338	12.5
EBIT Margin (%)	29.0	26.4	+2.7ppt	Cash	1,234	1,248	(1.1)
Other income, gains and losses	53	20	169.5	Net debt	271	90	199.7
Fair value gain of investment properties	3	6	(48.4)	Net gearing (%)	14.8%	5.9%	+8.9ppt
Other exceptional items	45	(2)	(2,491.2)				
Expenses recharged to residential	67	66	1.7	By segment	2017	2016	YoY Chg
Share option expenses	(45)	(79)	(42.7)		RMBmn	RMBmn	
Bad debt allowance	(50)	(29)	71.6	Revenue:			
Share of profit from JCE/ Associates	2	1	na	Property management services	1,231	1,059	16%
Finance cost	(90)	(38)	137.4	Engineering services	121	126	-4%
Profit before tax	457	298	53.3	Community leasing, sales and others	277	157	76%
Tax	(106)	(82)	29.6	Total	1,629	1,342	21%
Profit after tax	351	216	62.3	Segment profit:			
Minority Interest	(30)	(28)	6.3	Property management services	239	234	2%
Net profit	321	188	70.8	Engineering services	51	47	8%
Core net profit (ex. share option exp.)	330	264	25.1	Community leasing, sales and others	218	122	79%
Core net margin	20.3	19.7	+0.6ppt	Total	508	403	26%

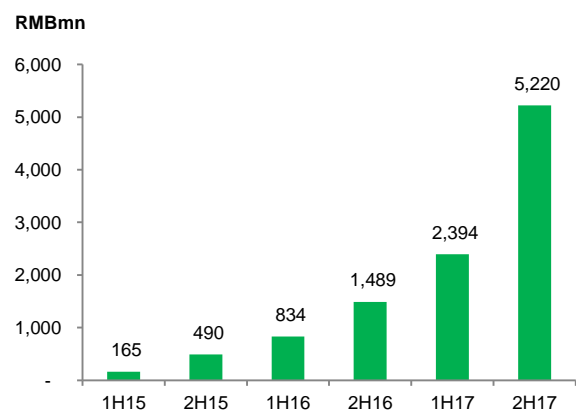
Source(s): Company, ABCI Securities

Exhibit 2: Registered and active users of online platform



Source(s): Company, ABCI Securities

Exhibit 3: GMV on online platform



Source(s): Company, ABCI Securities



Consolidated income statement (2015A-2020E)

FY Ended Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
Revenue	828	1,342	1,629	3,526	4,012	4,613
Cost of sales	(373)	(756)	(898)	(2,015)	(2,252)	(2,544)
Gross Profit	454	586	731	1,511	1,760	2,070
SG&A expenses	(145)	(232)	(258)	(536)	(629)	(673)
EBIT	310	354	473	975	1,130	1,397
Finance cost	(11)	(38)	(90)	(207)	(207)	(207)
Share of profit of associates	1	1	2	-	-	-
Other income/ (expenses)	15	17	97	53	53	53
Expenses recharged under commission basis	47	66	67	69	75	80
Allowance for bad debt	(28)	(29)	(50)	(50)	(50)	(50)
Share option expenses	(88)	(79)	(45)	(45)	(45)	(45)
Listing expenses & others	-	-	-	-	-	-
Fair value change of IP	7	6	3	-	-	-
Profit before tax	252	298	457	795	956	1,228
Tax	(69)	(82)	(106)	(199)	(239)	(307)
Profit after tax	183	216	351	597	717	921
Minority interest	(14)	(28)	(30)	(51)	(61)	(79)
Reported net profit	168	188	321	546	656	842
Less: exceptional items	83	77	10	45	45	45
Core net profit	252	264	330	591	701	888
Per share						
Underlying EPS (RMB)	0.25	0.26	0.33	0.45	0.53	0.67
DPS (HK\$)	0.09	0.10	0.15	0.20	0.24	0.31
Payout ratio (%)	36%	38%	45%	45%	45%	45%
BVPS (RMB)	1.26	1.46	1.72	2.54	2.79	3.13
Growth %						
Revenue	112.6%	62.2%	21.4%	116.5%	13.8%	15.0%
Gross Profit	46.7%	28.9%	24.7%	106.9%	16.4%	17.6%
EBIT	26.3%	14.3%	33.5%	106.4%	15.9%	23.6%
Underlying net profit	44.5%	5.0%	25.0%	78.9%	18.6%	26.6%
Margin %						
Gross margin	54.9%	43.6%	44.9%	42.9%	43.9%	44.9%
EBIT margin	37.4%	26.4%	29.0%	27.7%	28.2%	30.3%
Core net margin	30.4%	19.7%	20.3%	16.8%	17.5%	19.2%
Key assumptions						
Property management fee (RMBmn)	586	1,059	1,231	2,775	3,198	3,731
Engineering services (RMBmn)	135	126	121	119	117	117
Community leasing, sales and other services (RMBmn)	106	157	277	633	696	766
Contracted GFA(mn sqm)	322	395	435	570	655	740
Revenue-bearing GFA (mn sqm)	232	291	294	365	418	475

Source(s): Company, ABCI Securities estimates

Consolidated balance sheet (2014A-2019E)

As of Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
Current assets	1,589	2,453	2,892	2,647	3,182	3,818
Cash	419	755	857	578	1,071	1,661
Pledged deposit	551	493	377	377	377	377
Trade & other receivables	291	467	697	736	778	824
Amount due to related parties	101	135	271	271	271	271
Payments on behalf of residents	170	260	407	407	407	407
Other current assets	56	344	282	278	278	278
Non-current assets	1,131	1,570	1,769	4,711	4,599	4,508
Property, plant & equipment	167	181	169	234	298	363
Investment properties	89	93	71	71	71	71
Intangible assets	152	210	241	706	529	373
Goodwill	576	750	917	2,417	2,417	2,417
Investment in Associate and JCE	7	9	69	69	69	69
Other non-current assets	140	328	302	1,214	1,214	1,214
Total Assets	2,719	4,023	4,661	7,358	7,781	8,326
Current Liabilities	1,074	1,282	1,760	1,782	1,806	1,833
Short term borrowings	303	214	513	513	513	513
Trade & other payables	501	710	846	868	893	919
Receipt on behalf of residents	104	156	158	158	158	158
Amount due to related parties	40	48	50	50	50	50
Other current assets	125	154	193	193	193	193
Non-current liabilities	345	1,208	1,074	2,074	2,074	2,074
Long term borrowings	290	1,124	992	1,992	1,992	1,992
Deferred tax liabilities	54	74	80	80	80	80
Other non-current assets	1	10	2	2	2	2
Total Liabilities	1,418	2,490	2,834	3,856	3,880	3,907
Net Assets	1,301	1,532	1,827	3,503	3,901	4,419
Shareholders' Equity	1,259	1,459	1,721	3,345	3,683	4,122
Minority Interest	41	74	106	157	219	297
Total Equity	1,301	1,532	1,827	3,503	3,901	4,419
Key ratio						
Gross debt (RMB mn)	593	1,338	1,505	2,505	2,505	2,505
Net debt (RMB mn)	(378)	90	271	1,550	1,057	467
Net gearing (%)	-29%	6%	15%	44%	27%	11%

Source(s): Company, ABCI Securities estimates



Consolidated cash flow statement (2014A-2019E)

FY ended Dec 31 (RMB mn)	2015A	2016A	2017A	2018E	2019E	2020E
EBITDA	338	405	539	1,110	1,307	1,553
Change in Working Capital	(34)	(14)	(203)	(12)	(18)	(19)
Tax payment	(65)	(69)	(106)	(199)	(239)	(307)
Operating cash flow	239	322	231	900	1,050	1,227
Purchase of PP&E	(901)	(615)	5	(3,051)	(33)	(27)
Addition of Investment Properties	(51)	(65)	(65)	(65)	(65)	(65)
Others	51	65	65	65	65	65
Investing cash flow	(901)	(615)	5	(3,051)	(33)	(27)
Debt raised	593	220	113	200	200	200
Debt repaid	(128)	(153)	(200)	(200)	(200)	(200)
Interest expenses	(11)	(17)	(90)	(207)	(207)	(207)
Equity raised	-	-	-	1,347	-	-
Dividend to shareholders	(71)	(85)	(150)	(268)	(318)	(403)
Others	13	663	-	1,000	-	-
Financing cash flow	395	628	(328)	1,872	(525)	(610)
Net cash inflow/ (outflow)	(268)	335	(92)	(279)	493	590
Cash- beginning	687	419	755	857	578	1,071
Cash- year-end	419	755	663	578	1,071	1,661

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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