



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Property Management Sector

Cash-rich and Expanding

June 14, 2018



China Property Management Sector Cash-rich and expanding

- Rising interest rate is positive to the property management (PM) sector because their sizeable net cash balances can generate substantial interest income
- Having top developers as parents, revenue-bearing GFA growth of A-Living and Country Garden Services have been faster than peers.
- Property agency is a key growth driver for value-added services (VAS) revenue.
- **A-Living (3319 HK)** is our top pick given its above-peer growth and better margins. We also like **Colour Life (CL, 1778 HK)** for its rapid profit growth in 2018 after the injection of Wanxiangmei.

Rising interest rate may benefit the PM sector. Since the PM sector adopts an asset-light model, most HK-listed names have maintained a net cash position since listing. E.g., Greentown Services (GTS), China Overseas Properties (COP, 2669 HK) and Country Garden Services (CGS, to be listed by introduction) had a net cash balance of ~RMB 2bn or more as of end-2017. While these players usually intend to utilize their cash to acquire smaller property management companies (PMCs), the lack of suitable targets usually leads to sizable interest income resulted from the idle cash. In 2017, interest income represented 4.9%-20.5% of 2017 net profit for the listed PMCs. We believe the rising interest rate would be positive to the major PM players in two ways; (1) more interest income; (2) more M&A opportunities since smaller developers may wish to dispose of their PM operations upon refinancing pressure. Among the HK-listed names, we expect A-living to be the most sensitive to the rising interest rate given its high cash balance after collecting its IPO proceeds (HK\$4.1bn) in Feb 2018. We estimate for every 50bps increase in effective interest rate, 2018 net profit will be elevated by 1.5%.

The stronger the parent, the faster the growth. Backed by parents with high presales volume, revenue-bearing GFA of A-Living and Country Garden Services grew 56%YoY and 35% YoY in 2017, outperforming peers with smaller parents. Presales of A-Living's major shareholders, Agile (3383 HK) and Greenland (600606 CH), amounted to RMB 396bn in 2017. The shareholders offer numerous quality projects to A-Living since Greenland's commercial projects and Agile's vacation property projects entail higher management fee than the average residential projects.

Property agency business is growing fast. As developers' presales have been rising swiftly since 2016, PMCs also devoted more efforts in developing the property agency business. E.g., GTS's revenue from Property Asset Management business (mainly property agency-related services) surged by 112% YoY to RMB 501mn in 2017. Property agency could become the core driver for PMC's value-added services (VAS) revenue.

A-Living (3319 HK) is our top pick based on its rising margins and above-peer growth in contracted GFA; CL (1778 HK) is a recovery story. Among the HK-listed names, A-Living had the second highest gross and net margins next to Colour Life (1778 HK) for 2017. CL's high margin is mainly an artifact of the accounting method used for its commission-based contracts, which only recognizes a certain percentage of management fee received without accounting for any operation cost on the P&L. On a like-for-like basis, we calculate that A-Living should have the highest gross and net margins among peers for 2017. With improving margins and increasing contracted GFA, A-Living registered the fastest profit growth of 80% YoY in 2017, compared to 24%-71% YoY growth among peers. A-Living is our top pick for the PM sector. We also like CL following the injection of Wanxiangmei (formerly known as Wanda property management). We forecast its core net profit (before share option expenses) to rebound by 82% YoY in 2018, much faster than the 15% CAGR in 2015-17.

Sector Valuation Summary (data as of Jun 13, 2018)

Company	Ticker	Current Rating	Previous Rating	TP (HK\$)	FY18E P/E(x)	FY19E P/E (x)	FY18E P/B (x)	FY19E P/B (x)	FY18E Yield(%)	FY19E Yield(%)
A-Living	3319	BUY	BUY	18.60	23.5	15.9	3.2	2.8	1.1	1.6
Colour Life	1778	BUY	BUY	10.20	15.2	12.5	2.7	2.5	2.4	3.0

Source(s): Bloomberg, ABCI Securities estimates

Sector Report June 14, 2018 OVERWEIGHT

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Key Data

Avg.18E P/E (x)	24.2
Avg.18E P/B (x)	5.5
Avg.18E Dividend Yield (%)	1.5

Source(s): Bloomberg, ABCI Securities

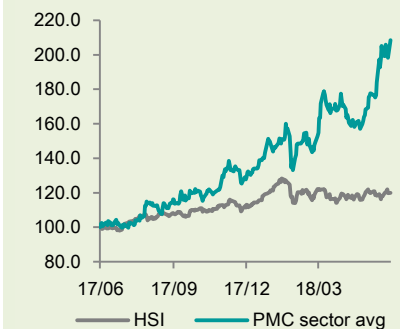
Sector Performance %

	Absolute	Relative*
1-mth	23.9	24.2
3-mth	39.6	39.5
6-mth	61.5	54.4

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year sector performance (HK\$)



Source(s): Bloomberg, ABCI Securities

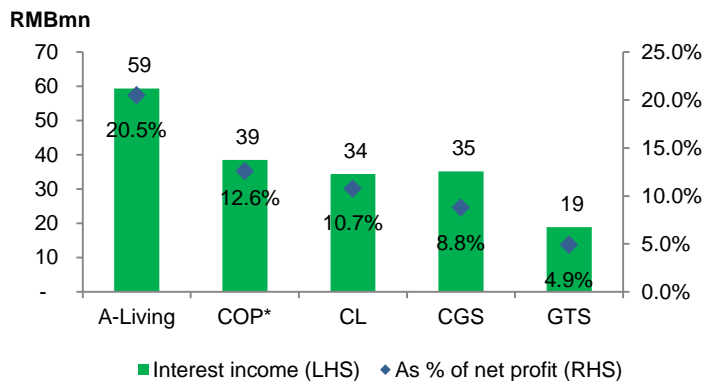


Interest rate hike could be a positive factor

Rising interest rate may benefit the sector. Since companies in property management (PM) sector usually adopt an asset-light model, most HK-listed names have maintained a net cash position since listing. E.g. Greentown Services (GTS, 2869 HK), China Overseas Properties (COP, 2669 HK) and Country Garden Services (CGS) had a net cash balance of ~RMB2bn as of end-2017. While these players may wish to utilize their cash to acquire smaller property management companies (PMCs), the lack of suitable acquisition candidates has resulted in sizable interest income due to the idle cash. In 2017, interest income accounted for 4.9%-20.5% of net profit for the HK-listed PMCs. In our view, these large PMCs would profit from the rising interest rate environment in two ways: (1) their interest income will rise; (2) smaller developers may wish to dispose of their PM operations upon refinancing pressure, leading to more M&A opportunities. Among the HK-listed names, we expect A-living to be the most sensitive to rising rates because of its highest cash balance among peers after collecting its IPO proceeds of HK\$ 4.1bn in Feb 2018.

Our sensitivity analysis shows A-living's 2018 net profit would go up by 1.5% for every 50bps increase in effective interest rate. Market interest rate has been trending up since 2018. By actively managing time deposit accounts or investing in low-risk wealth management products, PMCs strive to maximize their interest income. Among the HK-listed players, we believe A-Living has been remarkably active in managing idle cash. In 2017, the group invested in wealth management products from reputable PRC banks with fixed interest rate and short-term maturities lasting between 13 and 36 days. Such investments resulted in an additional interest income amounting to RMB 6.3mn. Given its sizable cash balance after the IPO, we estimate for every 50bps increase in effective interest rate, its 2018 net profit would go up by 1.5%.

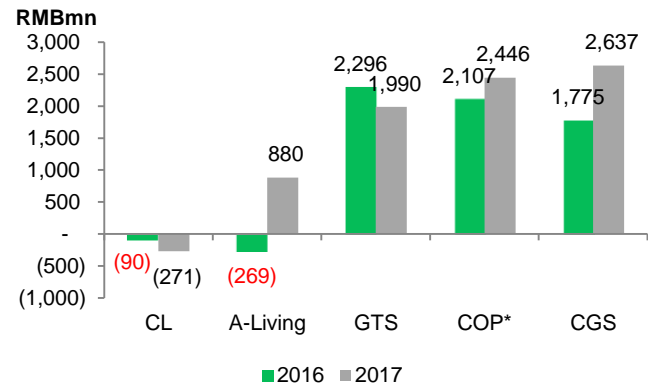
Exhibit 1: Interest income and as a percentage of net profit



* in HK\$

Source(s): Companies, ABCI Securities

Exhibit 2: Net cash/(debt) level of PMCs



* in HK\$

Source(s): Companies, ABCI Securities

Exhibit 3: Interest rate sensitivity of A-Living

	-100bps	-50bps	Base case	+50bps	+100bps
Effective interest rate on cash balance	0.0%	0.5%	1.0%	1.5%	2.0%
Interest income (RMBmn)	-	14	29	44	58
2018E net profit enhancement	-3.0%	-1.5%	0.0%	1.5%	3.0%

Source(s): Companies, ABCI Securities estimates

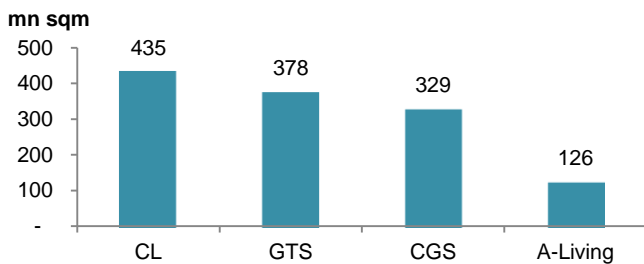


Organic growth instead of M&A expansion

The stronger the parent, the faster the growth. Colour Life (CL, 1778 HK), the first major PMC listed in HK, had 435mn sqm of contracted GFA and 294mn sqm of revenue-bearing GFA as of Dec 2017 - the highest among the major HK-listed players. In terms of growth, however, CL's revenue-bearing GFA was up only by 1% YoY in 2017. As CL's parent group, Fantasia (1777 HK), is a small- to mid-cap developer with ~RMB 20bn presales in 2017, most of CL's new projects were secured by M&A with smaller PMCs or new contract tendering from third-party developers. Following the listing of GTS, COP, and A-Living, the M&A market has become increasingly competitive since these listed names are also pursuing growth via M&A in addition to organic expansion. In our view, valuation of the M&A targets would turn more expensive while their qualities, in terms of margins and profitability, may vary especially with the smaller economies of scale. We believe organic GFA growth supported by the parent group would become increasingly important. Backed by sizable parents or major shareholding companies, revenue-bearing GFA growth of A-Living and Country Garden Services (CGS, to be listed by introduction) grew 56% YoY and 35% YoY in 2017, outperforming peers with smaller parents.

Quantity vs. quality: While Country Garden (2007 HK), CGS's parent, was ranked no.1 by 2017 presales in China (RMB 551bn), their 4M18 contracted ASP was only ~RMB 9k/sqm (vs. RMB12k/sqm for Greenland and Agile; RMB23k/sqm for Greentown), implying that purchasers of the properties sold are mostly located in lower-tier cities with less disposable income. It could be difficult for CGS to raise management fee in the future because the homeowners are more price-sensitive than those in the wealthier regions. A-Living's major shareholders, Agile and Greenland (2017 combined presales: RMB 396bn), offers numerous quality projects to A-Living. In fact, Greenland's commercial projects and Agile's vacation property projects usually entail higher management fee than the average residential projects.

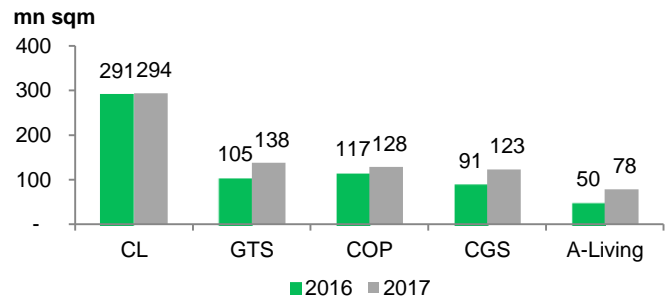
Exhibit 4: Contracted GFA of PMCs (as of Dec 2017)



* COP's figure is not available

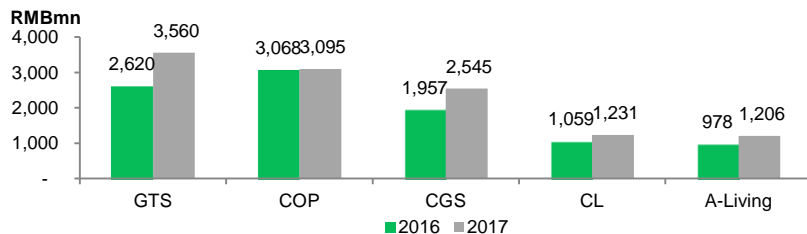
Source(s): Companies, ABCI Securities

Exhibit 5: Revenue-bearing GFA of PMCs



Source(s): Companies, ABCI Securities

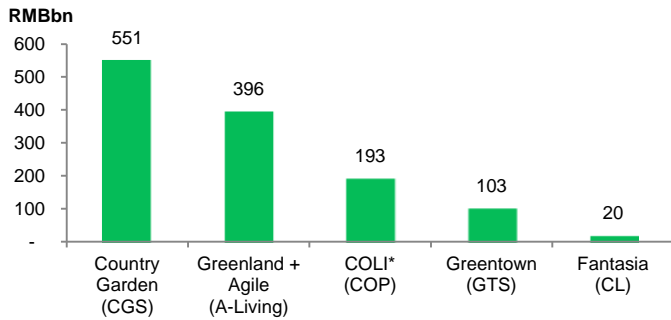
Exhibit 6: Property management revenue of PMCs



Source(s): Companies, ABCI Securities



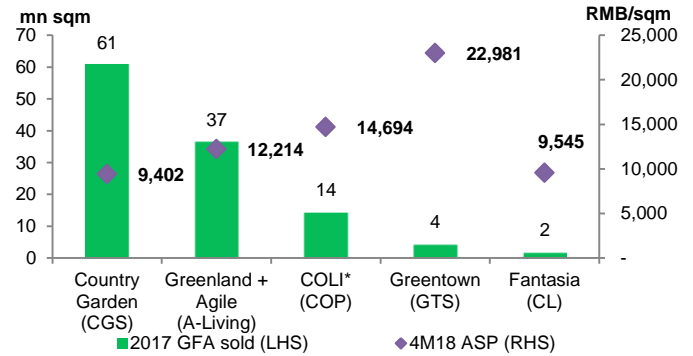
Exhibit 7: Presales of parent/ major shareholders of PMCs (2017)



* RMB to HK\$: 1.20 for 2017

Source(s): Companies, ABCI Securities

Exhibit 8: Presales GFA and ASP of parent/ major shareholder of PMCs



* RMB to HK\$: 1.24 for 4M18

Source(s): Companies, CRIC, ABCI Securities

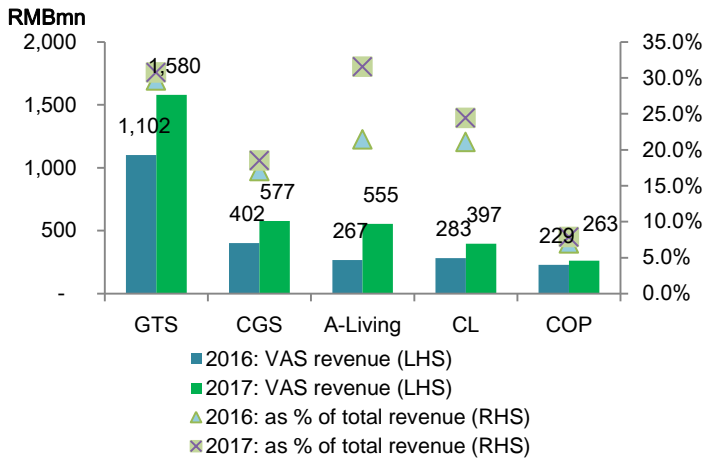
Property agency business becomes a core VAS driver

Property agency business is growing fast. Among the major HK listed names, GTS has the highest value-added services (VAS) revenue of RMB 1,580mn in 2017, representing 31% of total revenue. GTS is also the largest HK-listed PMC by market cap, implying investors favor players with a high VAS revenue mix. Compared with tradition PM business whose management fee rates are predetermined in contracts and upward adjustment can prove difficult, VAS business tends to have higher margins and more flexible pricing. Among the VAS sub-segments, sales assistance and consulting services (e.g. cleaning, repair and maintenance of developers' sales centers) still represents 43%-64% of VAS revenue for the HK-listed PMCs (excluding CL and COP) in 2017. Developers' presales have been rising rapidly since 2016, and PMCs have increased efforts in property agency business. E.g., GTS's revenue from Property Asset Management business (mainly property agency-related services) increased 112%YoY to RMB 501mn in 2017.

Concerns about related-party transactions. While commission revenue from property agency business is likely to accelerate further in coming years, a substantial share can come from related-party transactions (RPTs) when PMCs assist in the sales of parents' projects. A-Living's had the highest share of RPT in 2017 that accounted for ~30% of total revenue. Market may have concerns over whether such transactions are conducted on arm's length basis. As the PMCs' outreach to potential homebuyers increase along with the GFA under management, commission from secondary home sales would grow in the future, hence reducing the share of RPT.

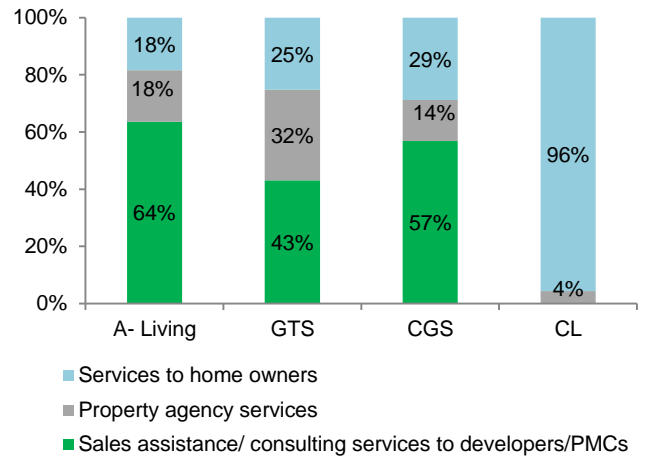


Exhibit 9: VAS revenue of PMCs



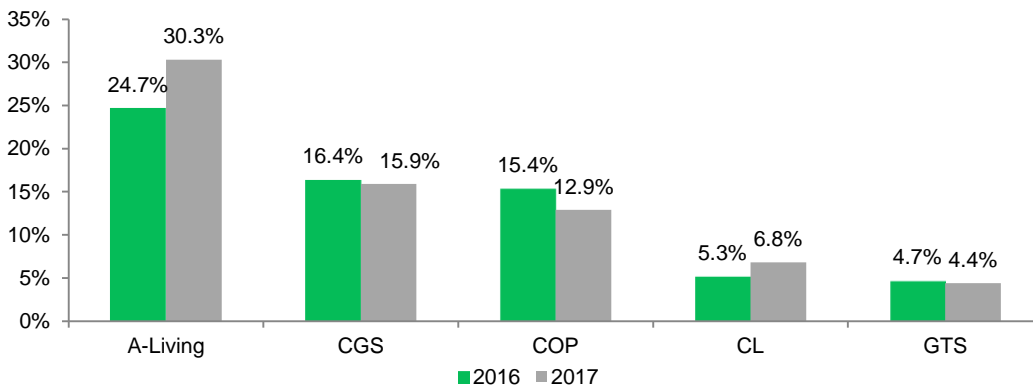
Source(s): Companies, ABCI Securities

Exhibit 10: VAS revenue breakdown (2017)



* No breakdown was disclosed for COP
Source(s): Companies, ABCI Securities

Exhibit 11: Percentage of total revenue from related parties among PMCs



Source(s): Companies, ABCI Securities



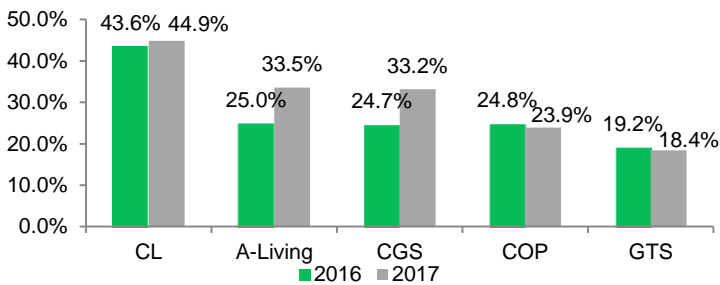
Top pick: A-Living, a fast-growing PMC with decent margins

Investors' interest in PM sector will grow. The proposed HK listing of CGS by introduction on June 19, 2018 will add another market leader as an investment option in the PM sector. Xinchengyue Holdings Limited, the PM division of Future Land (1030 HK), has also filed its prospectus with HKEx. We believe improving market cap and trading liquidity enhanced by the growing number of stocks will support the ongoing sector rerating. In a rising interest rate environment, PMCs will stand out as better alternatives than developers for investors who want to increase their exposure in property-related sectors.

A-Living is our top pick on rising margins and above-peer GFA growth. Among the HK listed names, A-Living has the second highest gross and net margins next to CL (1778 HK) in 2017. CL's high margin is mainly an artifact of the accounting method used for its commission-based contracts, which only recognizes a certain percentage of management fee received without accounting for any operation cost on the P&L. On a like-for-like basis, we calculate that A-Living should have the highest gross and net margins among peers for the year. With improving margins and expanding contracted GFA, A-Living registered the highest profit growth of 80% YoY in 2017, compared to 24%-71%YoY growth among peers.

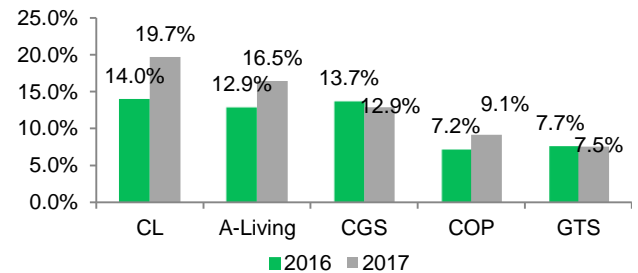
We also like CL for its recovery story following the injection of Wanxiangmei (formerly known as Wanda property management). We forecast its core net profit (before share option expenses) to rebound by 82%YoY in 2018 following the injection, much faster than the 15% CAGR growth in 2015-17. In fact, its share price trend concurs with our recovery story, rallying up by 46% since our initiation on Mar 13, 2018.

Exhibit 12: Gross margin of PMCs



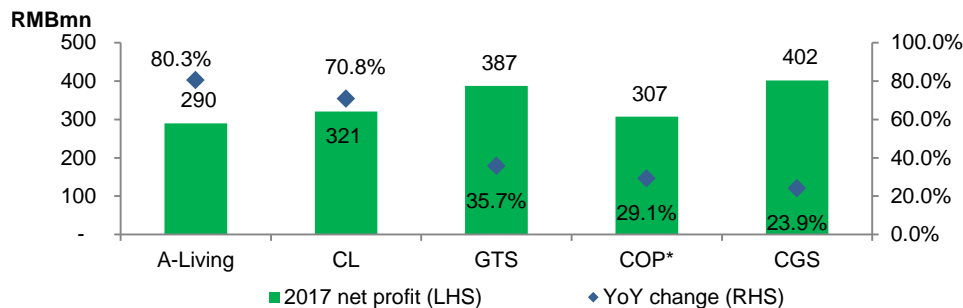
Source(s): Companies, ABCI Securities

Exhibit 13: Net margin of PMCs



Source(s): Companies, ABCI Securities

Exhibit 14: Net profit and YoY growth of PMCs



* in HK\$

Source(s): Companies, ABCI Securities



A-Living (3319 HK; BUY; TP: HK\$: 18.60): More M&As are on the way

- **Striking the first deal after IPO.** In Apr 2018, A-Living announced to acquire a 51% stake in Nanjing Zizhu, a PMC focusing on Nanjing City and surrounding area, with a GFA under management of 20mn sqm at consideration of RMB 205mn. Nanjing Zizhu's FY17 net profit was RMB 33.7mn (+41.5% YoY), implying a historical P/E of 11.9x, or 3.3x P/B based on the book value of RMB 122mn as at Dec 2017. With more than RMB 3.3bn in cash after the IPO, A-Living may seek out for more M&A opportunities in 2018.
- **Maintain BUY; raise TP to HK\$ 18.60.** We factor in the acquisition of Nanjing Zizhu in our model and raise our 2018E and 2019E net profits by 1% and 2%. We also adjust up our DCF-based TP to HK\$ 18.60 (from HK\$ 16.30) on increased contracted GFA and terminal growth assumption (from 0% to 2.5%). Maintain **BUY**.
- **Risk factors:** 1) Substantial related-party transactions; 2) Reliance on shareholders for new projects; 3) Potential margin erosion due to M&As.

Colour Life (CL, 1778 HK; BUY; TP: HK\$:10.20): O2O platform growing hard and fast

- **O2O platform achieved impressive growth.** CL launched the Cai Hui Rensheng (CHRS; 彩惠人生) program on Mar 31, 2018 and daily transaction volume has already exceeded 10,000 within a month. The CHRS program enables homeowner to receive PM fee reduction upon purchasing goods or services on CL's online platform Caizhiyun. (彩之云). There are more than 20 products available on Cai Hui Rensheng, including e-cleaning, annual broadband service, foods, commodities and training programs. The products supplied are directly by merchants so that the pricing can stay competitive with the lower distribution and retail rental costs. Besides, CL has signed a share transfer agreement with Hunan Kun Peng Property in May 2018, which has a contracted GFA area of 8.7 mn sqm and 74 projects under management. Hunan Kun Peng Property is a local PMC in Changsha. The cooperation will help CL penetrate into the Hunan Province. With the growing number of projects joining CL's O2O platform, VAS revenue will expand further
- **Maintain BUY; raise TP to HK\$ 10.20.** We factor in the better-than-expected performance of CL's O2O platform and raise our 2018E and 2019E net profits by 2% and 4%. Our DCF-derived TP goes up to HK\$10.20 (from HK\$ 8.00) on higher VAS revenue and terminal growth assumption (from 0% to 2.5%). 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 share)



Exhibit 15: Valuation of the China property management sector

	PRC Property	Ticker	Mkt cap (HKD bn)	Share Price (local ccy)	Performance			P/E			Valuation Yield (%)			P/B		
					3M % Chg	YTD % Chg	2017 % Chg	2017A	2018E	2019E	2017A	2018E	2019E	2017A	2018E	2019E
1	A-Living	3319 HK	20.9	15.70	48	NA	NA	35.4	23.5	15.9	0.0	1.1	1.6	7.3	3.2	2.8
2	Greentown Services	2869 HK	21.8	7.86	32	28	135	46.0	34.3	25.6	0.9	1.0	1.3	9.3	7.9	6.5
3	China Overseas Property	2669 HK	9.5	2.90	7	37	62	31.1	23.6	19.5	1.0	1.3	1.7	11.1	8.1	6.2
4	Colour Life	1778 HK	11.2	8.48	46	63	(8)	21.0	15.2	12.5	1.8	2.4	3.0	4.0	2.7	2.5
5	Zhong Ao	1538 HK	1.3	1.62	72	145	(42)	11.8	NA	NA	3.8	NA	NA	2.2	NA	NA
	PMC Avg				41	68	37	29.1	24.2	18.4	1.5	1.5	1.9	6.8	5.5	4.5
	PMC Avg, ex Zhong Ao				33	43	63	33.4	24.2	18.4	0.9	1.5	1.9	7.9	5.5	4.5

Source(s): Bloomberg, ABCI Securities estimates



A-Living (3319 HK)

Consolidated income statement (2016A-2020E)

FY Ended Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
Revenue	1,245	1,761	3,572	5,217	6,595
Direct costs	(933)	(1,170)	(2,415)	(3,568)	(4,511)
Gross Profit	312	591	1,158	1,649	2,084
Selling and marketing expenses	(19)	(33)	(36)	(41)	(47)
Administrative expenses	(79)	(154)	(180)	(222)	(260)
EBIT	214	404	941	1,385	1,777
Finance cost	(71)	(49)	-	-	-
Finance income	86	53	29	56	69
Other income/ (expenses)	3	10	12	12	12
Others one-off items	-	(16)	-	-	-
Profit before tax	232	403	982	1,453	1,858
Tax	(63)	(102)	(246)	(363)	(465)
Profit after tax	169	300	737	1,090	1,394
Minority interest	(8)	(10)	(11)	(17)	(17)
Reported net profit	161	290	726	1,073	1,377
Less: exceptional items*	0	12	0	0	0
Core net profit	161	302	726	1,073	1,377
Per share					
Core EPS (RMB)	0.22	0.36	0.54	0.80	1.03
DPS (RMB)	-	-	0.14	0.20	0.26
Payout ratio (%)	0%	0%	25%	25%	25%
BVPS (RMB)	0.39	1.76	3.95	4.56	5.33
Growth %					
Revenue	33.2%	41.5%	102.9%	46.0%	26.4%
Gross Profit	109.4%	89.5%	96.0%	42.4%	26.4%
EBIT	142.2%	88.7%	133.2%	47.2%	28.3%
Core net profit	147.3%	80.3%	150.5%	47.9%	28.3%
Margin %					
Gross margin	25.0%	33.5%	32.4%	31.6%	31.6%
EBIT margin	17.2%	22.9%	26.4%	26.6%	26.9%
Core net margin	12.9%	16.5%	20.3%	20.6%	20.9%
Revenue breakdown					
Property management services	978	1,206	2,536	3,956	5,158
VAS to non-property owners	212	453	889	1,061	1,188
VAS to property owners	55	102	148	199	249
Total	1,245	1,761	3,572	5,217	6,595
Key assumptions					
Contracted GFA(mn sqm)	73.4	126.1	209.1	272.1	335.1
GFA under management (mn sqm)	50.1	78.3	134.9	177.2	227.8
* Before listing expenses and other related costs					

Source(s): Company, ABCI Securities estimates



A-Living (3319 HK)

Consolidated balance sheet (2016A-2020E)

As of Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
Current assets	1,179	1,399	5,798	7,516	9,335
Cash and restricted cash	526	880	4,916	6,214	7,661
Trade & other receivables	223	488	851	1,271	1,643
Loan and interest receivables due from related parties	405	13	13	13	13
Other current assets	24	17	17	17	17
Non-current assets	720	1,112	1,505	1,486	1,469
Property, plant & equipment	62	71	62	44	26
Other intangible assets	11	1,029	1,431	1,431	1,431
Loan and interest receivables due from related parties	631	0	0	0	0
Other non-current assets	17	12	12	12	12
Total Assets	1,899	2,511	7,303	9,002	10,804
Current Liabilities	1,000	1,015	1,798	2,676	3,428
Short term borrowings	200	0	0	0	0
Trade & other payables	761	952	1,736	2,613	3,366
Other current liabilities	39	62	62	62	62
Non-current liabilities	596	22	22	22	22
Long term borrowings	596	0	0	0	0
Deferred tax liabilities	0	22	22	22	22
Other non-current liabilities	0	0	0	0	0
Total Liabilities	1,595	1,037	1,820	2,698	3,450
Net Assets	303	1,474	5,483	6,304	7,354
Shareholders' Equity	280	1,472	5,273	6,078	7,111
Minority Interest	24	2	210	226	243
Total Equity	303	1,474	5,483	6,304	7,354
Key ratio					
Gross debt (RMB mn)	795	-	-	-	-
Net debt (RMB mn)	269	(880)	(4,916)	(6,214)	(7,661)
Net gearing (%)	89%	-60%	-90%	-99%	-104%

Source(s): Company, ABCI Securities estimates



A-Living (3319 HK)

Consolidated cash flow statement (2016A-2020E)

As of Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
EBITDA	220	411	960	1,414	1,804
Change in working capital and others adjustments	192	(47)	421	458	380
Tax payment	(68)	(76)	(246)	(363)	(465)
Operating Cash flow	344	287	1,135	1,508	1,720
Purchase of PP&E	(6)	(17)	(10)	(10)	(10)
Loans repayments received from related parties	(450)	1,036	-	-	-
Interest received	97	46	29	56	69
Others	241	(970)	(373)	56	69
Investing Cash flow	(215)	49	(383)	46	59
Debt raised	1,078	-	-	-	-
Debt repaid	(877)	(809)	-	-	-
Interest expenses	(62)	(33)	-	-	-
Equity raised	-	1,199	3,306	-	-
Dividend to shareholders	-	(270)	(231)	(268)	(344)
Others	51	(67)	209	12	12
Financing Cash flow	190	20	3,284	(256)	(332)
Net cash inflow/ (outflow)	319	357	4,037	1,297	1,447
Cash- beginning	204	523	880	4,916	6,214
Cash- year-end	523	880	4,916	6,214	7,661

Source(s): Company, ABCI Securities estimates



Colour Life (1778 HK)

Consolidated income statement (2016A-2020E)

FY Ended Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
Revenue	1,342	1,629	3,582	4,155	4,813
Cost of sales	(756)	(898)	(2,046)	(2,333)	(2,654)
Gross Profit	586	731	1,535	1,823	2,159
SG&A expenses	(232)	(258)	(545)	(654)	(708)
EBIT	354	473	990	1,169	1,451
Finance cost	(38)	(90)	(207)	(207)	(207)
Share of profit of associates	1	2	-	-	-
Other income/ (expenses)	17	97	53	53	53
Expenses recharged under commission basis	66	67	69	75	80
Allowance for bad debt	(29)	(50)	(50)	(50)	(50)
Share option expenses	(79)	(45)	(45)	(45)	(45)
Listing expenses & others	-	-	-	-	-
Fair value change of IP	6	3	-	-	-
Profit before tax	298	457	810	994	1,283
Tax	(82)	(106)	(203)	(249)	(321)
Profit after tax	216	351	608	746	962
Minority interest	(28)	(30)	(52)	(64)	(82)
Reported net profit	188	321	556	682	880
Less: exceptional items*	77	10	45	45	45
Core net profit	264	330	601	727	925
Per share					
Core EPS (RMB)	0.26	0.33	0.46	0.55	0.70
DPS (HK\$)	0.10	0.15	0.21	0.25	0.32
Payout ratio (%)	38%	45%	45%	45%	45%
BVPS (RMB)	1.46	1.72	2.54	2.81	3.16
Growth %					
Revenue	62.2%	21.4%	119.9%	16.0%	15.8%
Gross Profit	28.9%	24.7%	110.1%	18.7%	18.5%
EBIT	14.3%	33.5%	109.5%	18.1%	24.1%
Core net profit	5.0%	25.0%	81.9%	21.0%	27.2%
Margin %					
Gross margin	43.6%	44.9%	42.9%	43.9%	44.9%
EBIT margin	26.4%	29.0%	27.6%	28.1%	30.1%
Core net margin	19.7%	20.3%	16.8%	17.5%	19.2%
Key assumptions					
Property management fee (RMBmn)	1,059	1,231	2,775	3,198	3,731
Engineering services (RMBmn)	126	121	119	117	117
Community leasing, sales and other services (RMBmn)	157	277	688	840	966
Contracted GFA(mn sqm)	395	435	570	655	740
Revenue-bearing GFA (mn sqm)	291	294	365	418	475

* excluding share option expenses and other non-cash items

Source(s): Company, ABCI Securities estimates



Colour Life (1778 HK)

Consolidated balance sheet (2016A-2020E)

As of Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
Current assets	2,453	2,892	2,621	3,147	3,785
Cash	755	857	552	1,036	1,628
Pledged deposit	493	377	377	377	377
Trade & other receivables	467	697	736	778	824
Amount due to related parties	135	271	271	271	271
Payments on behalf of residents	260	407	407	407	407
Other current assets	344	282	278	278	278
Non-current assets	1,570	1,769	4,743	4,658	4,588
Property, plant & equipment	181	169	269	369	470
Investment properties	93	71	71	71	71
Intangible assets	210	241	703	517	347
Goodwill	750	917	2,417	2,417	2,417
Investment in Associate and JCE	9	69	69	69	69
Other non-current assets	328	302	1,214	1,214	1,214
Total Assets	4,023	4,661	7,365	7,805	8,373
Current Liabilities	1,282	1,760	1,782	1,806	1,833
Short term borrowings	214	513	513	513	513
Trade & other payables	710	846	868	893	919
Receipt on behalf of residents	156	158	158	158	158
Amount due to related parties	48	50	50	50	50
Other current assets	154	193	193	193	193
Non-current liabilities	1,208	1,074	2,074	2,074	2,074
Long term borrowings	1,124	992	1,992	1,992	1,992
Deferred tax liabilities	74	80	80	80	80
Other non-current assets	10	2	2	2	2
Total Liabilities	2,490	2,834	3,856	3,880	3,907
Net Assets	1,532	1,827	3,509	3,925	4,466
Shareholders' Equity	1,459	1,721	3,351	3,703	4,162
Minority Interest	74	106	158	222	304
Total Equity	1,532	1,827	3,509	3,925	4,466
Key ratio					
Gross debt (RMB mn)	1,338	1,505	2,505	2,505	2,505
Net debt (RMB mn)	90	271	1,575	1,092	500
Net gearing (%)	6%	15%	45%	28%	11%

Source(s): Company, ABCI Securities estimates



Colour Life (1778 HK)

Consolidated cash flow statement (2016A-2020E)

FY ended Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
EBITDA	405	539	1,128	1,355	1,621
Change in Working Capital	(14)	(321)	(12)	(18)	(19)
Tax payment	(69)	(79)	(203)	(249)	(321)
Operating cash flow	322	140	914	1,088	1,281
Purchase of PP&E	(65)	(100)	(100)	(100)	(100)
Addition of Investment Properties	(221)	(76)	(3,013)	-	-
Others	(329)	179	27	32	38
Investing cash flow	(615)	3	(3,086)	(68)	(62)
Debt raised	220	330	200	200	200
Debt repaid	(153)	(266)	(200)	(200)	(200)
Interest expenses	(17)	(79)	(207)	(207)	(207)
Equity raised	-	-	1,347	-	-
Dividend to shareholders	(85)	(87)	(273)	(330)	(420)
Others	663	60	1,000	-	-
Financing cash flow	628	(41)	1,868	(537)	(627)
Net cash inflow/ (outflow)	335	102	(304)	483	592
Cash- beginning	419	755	857	552	1,036
Cash- year-end	755	857	552	1,036	1,628

Source(s): 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.

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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate < 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 2005 (HSI total return index 2005-17 CAGR at 10%)

Time horizon of share price target: 12-month

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

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