

22 September 2014

Color Life (1778.HK)

A Leading Community Operation Company

HONG KONG | PROPERTY SERVICE | COMPANY RESULTS

Rating:

Buy

Property management service, engineering service and community operation service are three main business sections of Color Life. The proportions of the revenue of property management service, engineering service and community operation service accounted for 58.7%, 22.2% and 19.1% respectively in 2013. Property management service offers residential communities with fundamental maintenance service, and it is the principal part of revenue for Color Life, while engineering service and community operation service intend to provide upgrading service and value-added service;

From the perspective of margin, it varies greatly among three business sections. The margins of property management service, engineering service and community operation service reached 58.3%, 38.8% and 98.4% respectively in 2013. From 2011 to 2013, the margin of property management service of Color Life increased from 40.9% to 58.3%, the revenue of property service in the form of commission was key to revenue growth;

In the first half year of 2014, the revenue of Color Life increased by 49% to 163 million RMB on the year-on-year basis, and the profit attributable to shareholders increased by 206% to 62 million RMB on the year-on-year basis. During this period, the margin level significantly rose by 12.1% to 66.1%, mainly resulting from the commission revenue, whose margin was nearly 100%, and higher proportion of the consulting revenue;

By the end of June, the management area under a contract of the company reached 162 million square meters, including the management area of 89 million square meters and the area under a consulting contract of 73 million square meters, which had increased by 138% on the year-on-year basis;

At the end of June, the book cash (including restricted deposit) of Color Life added up to 803 million RMB, soaring by 446% over the end of 2013. The significant increase of book cash mainly came from the company's net IPO fund-raising amount of 710 million RMB, which lied in the level of net cash, with a prudent financial condition.

Key Financial Summary

FYE	12A	13A	14E	15E
Revenue (RMB mn)	197	223	485	705
Net Profit, adj. (RMB mn)	44	45	148	254
EPS, adj. (RMB)	0.044	0.045	0.148	0.254
P/E (X),adj.	68.64	67.11	43.24	25.20
BVPS (RMB)	0.110	0.180	1.160	1.390
P/B (X)	27.45	16.78	5.52	4.60
DPS (RMB)	0.044	0.045	0.148	0.254
Div. Yield (%)	0.00%	0.00%	0.00%	0.00%

Source: Bloomberg, Color Life

*All multiples & yields based on historical price and current market price

Target Price (HKD)	8.00
Forecast Dividend (HKD)	0.00
Closing Price (HKD)	6.58
Potential Upside	21.58%

Company Description

Color Life is an advanced property management company and the largest community service operator in China. It has been listed since June 2014. Fantasia Holdings Group Co., Limited (1777. HK), its parent company, splits the property management business to be listed separately, bringing a positive effect on the brand awareness, financing convenience and business expansion of Color Life. Property management service, engineering service and community operation service are three main business sections of Color Life.

Company Data

Raw Beta (Past 2yrs weekly data)	2.145
Market Cap. (HKD Mn)	6,580
Ent. Value (HKD Mn)	5,777
52 week range(HKD)	3.18-8.06



Major Shareholders	(%)
1.FANTASIA HOLDINGS	50.4
2.SPLENDID FORTUNE	21.6

Valuation Method

P/E

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How we view this

Two important performance observation indicators of Color Life are the growth of property management area and the growth of number of active APP users. The former can reflect the growth of fundamental businesses of the company (margin of safety), while the latter can represent the growth of value-added service of the company (room for imagination).

Relying on rapid growth of property management area and enhanced management efficiency, property management service will promote the net profit of Color Life to achieve an explosive growth from 2013 to 2016. It is expected that the compound growth of the performance to exceed 100% from 2013 to 2015. Fundamental property service has been the key to the leap-forward growth of the performance of Color Life in recent years. In the future, the performance growth will focus on the community operation service.

Investment Action

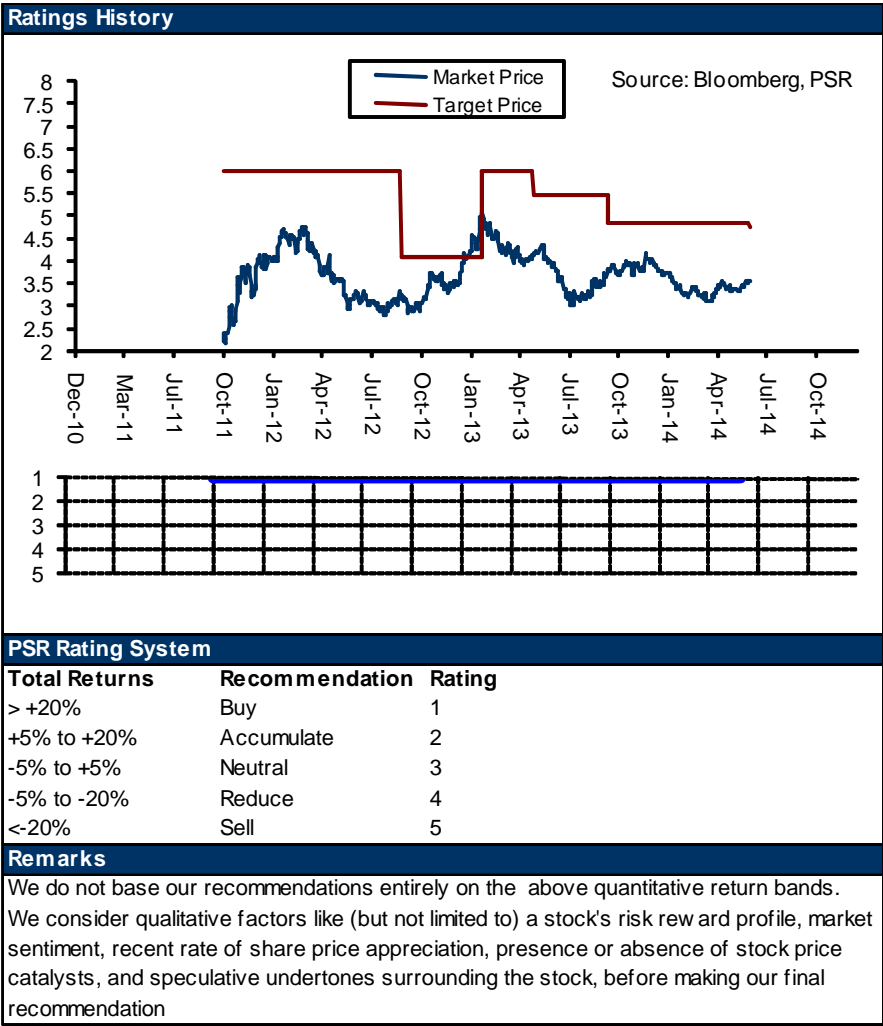
We expect that larger area of property management, higher commission ratio of service and more revenue of maintenance will promote CAGR of the revenue and profit to reach 78% and 137% in 2013-2015. To sum up, we give Color Life "Buy" rating, with the target price of 8 HKD for 12 months, amounting to 25 times of the expected P/E ratio in 2015.

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FYE	FY12	FY13	FY14F	FY15F
Valuation Ratios				
P/E (X), adj.	68.64	67.11	43.24	25.20
P/B (X)	27.45	16.78	5.52	4.60
Dividend Yield (%)	0.00%	0.00%	0.00%	0.00%
Per share data (RMB)				
EPS, reported	0.044	0.045	0.148	0.254
EPS, adj.	0.044	0.045	0.148	0.254
DPS	0.000	0.000	0.000	0.000
BVPS	0.110	0.180	1.160	1.390
Growth & Margins (%)				
Growth				
Revenue	34.1%	13.20%	117.49%	45.36%
Operation profit	83.70%	15.00%	195.65%	72.55%
Net Income, adj.	552.90%	2.27%	228.89%	71.62%
Margins				
Gross profit margin	47.90%	61.60%	68.90%	73.50%
Net profit margin	22.34%	20.18%	30.52%	36.03%
Key Ratios				
ROE (%)	40.00%	25.00%	12.76%	18.27%
ROA (%)	6.70%	9.10%	8.56%	10.85%
Net Debt/(Cash)	net cash	net cash	net cash	net cash
Net Gearing (X)	net cash	net cash	net cash	net cash
Income Statement (RMB mn)				
	FY12	FY13	FY14F	FY15F
Revenue	197	223	485	705
Gross profit	94	137	334	518
Operation profit	60	69	204	352
EBT	61	71	204	352
Tax	(16)	(25)	(51)	(88)
Tax rate	26.23%	35.21%	25.00%	25.00%
Profit for the year	45	46	153	264
Minority interests	1	1	5	10
Net profit	44	45	148	254

Source: BLOOMBERG, Color Life and Phillip Securities



PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20% upside from the current price
-5% to +5%	Neutral	3	Trade within \pm 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20% downside from the current price

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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