

Aoyuan Healthy (3662 HK)

In line with expectation, Easy Life consolidation as 2H growth driver
Hong Kong | Property Management | Update Report

Investment Summary

Aoyuan Health Life's revenue grew rapidly in 1H20. It recorded approximately RMB 547 million, an increase of 39.5% from approximately RMB 392 million in the same period last year, of which approximately 75.4% came from revenue from the property management service segment, an increase of 43.4% YoY, and another 24.6% of revenue came from the business management services segment, an increase of 28.8% YoY. The company's current total construction area under management is approximately 16.1 million square meters, an increase of approximately 1 million square meters from the end of last year. In addition to the two acquisitions in the first half of the year, EASY LIFE SMART COMMUNITY SERVICES GROUP CO. (樂生活) and Ningbo Hongjian, the GFA under management is expected to reach 45 million square meters. The data for the 1H shows the company's revenue before consolidation which new acquisitions are not included. Revenue growth reflects the continued good rate of company's organic growth.

Changes in the company's revenue structure and increased business GPM

The company's GPM in 1H further improved compared with the same period last year, and the overall GPM reached 40.1%, an increase of 0.5 percentage points from 39.6% in the same period last year. In terms of segments, the property management service segment and the commercial management property segment accounted for 75.4% and 24.6% of revenue, respectively. Compared with the same period last year, the revenue share of the property management segment increased. Look more detail to the business segment, the GPM of the property management segment improved significantly compared with last year, reaching 39.7%, mainly due to the significant increase in revenue from Major owners value-added services (formerly known as sales assistance services), which increased by approximately 55.27%, accounting for approximately 22.1% of the company's total revenue in 1H. The GPM of this business is higher in the residential property management sector. But on the other hand, the company's commercial management services segment's GPM has declined, from 46.1% in the same period last year, down 4.6% to 41.5%, mainly due to the decrease in revenue from Market positioning and business tenant sourcing services.

The NPM during the period was 20.4%, a decrease of 2.6% YoY. This was mainly due to the decrease in additional interest expenses and net foreign exchange income incurred by the increase of bank loans by approximately RMB 100 million during the period. The management further explained that the company did not intend to conduct equity financing in 2H, and the new loans are used as reserves for potential M&A activities.

The company's two acquisitions in the past six months have effectively expanded the company's residential management services. If the company can effectively carry out management, gross profit will be further improved in the future. We expect the company's 2020 and 2021 earnings per share to be CNY 33.07 cent and CNY 43.06 cent, giving a target price of HK\$9.60 corresponding to the expected P/E ratio of 26.1x/20.1x in 2020 and 2021.

The acquisition is expected to be completed within a month

The company's acquisition of an 80% interest in Easy Life is expected to be completed within August, and the management is also expected to complete the consolidation in August. As Easy Life is listed on the Beijing New OTC(Over the Counter) Market (新三板), the acquisition process is relatively complicated. The job of 2H is how to properly carry out post-investment work. Easy Life has a large gap with the company in terms of profitability. According to Easy Life's FY19 annual report, its GPM is 17.10%. The company stated that the acquisition of Easy Life mainly values the company's business model, and at the same time value the expansion capabilities of it to deploy national and global services.

28 August 2020

BUY (Upgrade)

CMP HKD 7.03

(Closing price as at 26 August)

TARGET HKD 9.60 (+36.6%)

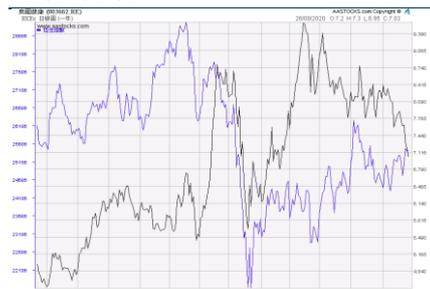
COMPANY DATA

O/S SHARES (MN) :	726.25
MARKET CAP (HKD MN) :	5,882.6
52 - WK HI/LO (HKD):	9.65/3.91

SHARE HOLDING PATTERN, %

China Aoyuan	54.58
Chiu Man Wai	6.35

PRICE VS. HSI



Source: Aastock, Phillip Securities (HK) Research

KEY FINANCIALS

CNY mn	FY18	FY19	FY20E	FY21E
Net Sales	619	901	1,684	2338
Net Profit	78	162	241	319
EPS, CNY cent	11.44	23.78	33.13	43.94
P/E, x	N/A	26.61	19.10	14.40
BVPS, CNY	N/A	1.17	1.46	1.86
P/BV, x	N/A	5.43	4.33	3.39
DPS (CNY cent)	5.5	9.0	10.4	15.5
Div. Yield (%)	N/A	1.39%	1.60%	1.84%

Source: Company reports, Phillip Securities Est.

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COVID-19 provided opportunities for the company. During the period, the company is committed to developing home-based services to meet customers' new consumption patterns and provide different value-added services, such as household daily necessities distribution, housekeeping cleaning, laundry services, and disinfection. The epidemic provides a good entry point for community value-added services. At the same time, the company can increase customer stickiness and enhance the sustainability of community value-added services by improving customer satisfaction.

Six new malls are expected to open in the second half of the year

In the commercial operation segment, the growth rate slowed down in 1H, with an overall increase of approximately 28.8%. The revenue from commercial operations and management services increased by 44.6% compared with last year, while the revenue from Market positioning and business tenant sourcing services decreased by approximately 12.1%. The epidemic has delayed malls that were originally scheduled to open in the 1H to the end of the year. The company expects that six new malls will open in the 2H. Nearly 80% of the company's malls have resumed, and some of them have returned to pre-epidemic levels.

Partner with leading companies to develop medical beauty business

In the first half of the year, the company continued to co-brand with the well-known Korean cosmetics company "Cosmax" to develop cosmetics and cosmetic product packages. In addition, in the first half of March, it completed the acquisition of 5% equity in Luxeme as a strategic investment in the company's medical beauty business. Luxeme is the largest medical beauty chain group in Zhejiang Province, headquartered in Hangzhou. The main purpose of this acquisition is to enhance the quality and brand influence of the company's medical beauty business through cooperation with domestic professional medical beauty groups. During the period, the company's self-operated medical beauty business incurred losses in the past, which had little impact on the company as a whole. The losses are expected to gradually narrow in 2H. At present, the main purpose of self-operated stores is talent training center, which cultivates a good medical beauty management team and prepares for future business expansion to achieve rapid development and performance contribution.

Implement health care business pilot

In terms of health care services, the company develops in the form of "1+3" model and "1+1+N" health care system layout. The "1+3" model refers to the use of community elderly care as the entrance to comprehensively promote home care, institutional care and residential care services. "1+1+N" refers to building an online smart health platform, connecting offline health cards, and providing health care. There are more than 70 comprehensive health care services in 3 categories, "healthy aging, happy aging, and learning while aging" for elderly people with different health conditions. In 1H20, the company's "property services + elderly care services" community health care brand "Aoyue Home" was officially launched for trial in the three communities under management—Guangzhou Panyu Jinye Villa Garden (廣州番禺金業別墅花園), Guangzhou Luogang Aoyuan Plaza (廣州蘿崗奧園廣場) and Zhongshan Aegean (中山愛琴海). Owners can enjoy high-quality old-age care services at their doorsteps, including TCM healthcare, health management, recuperation therapy, senior university, adapt to aging and the use of auxiliary equipment for the senior.

The integration of the three major business sectors is the focus of 2H

One of the company's key tasks in the 2H20 is the integration of the three sectors, and how to make it more synergistic. At present, it has begun to experiment in property and commercial management, property and general health, and it has also achieved initial results. In addition, it will focus on cooperation with real estate, and obtain support by providing services to real estate. Value-added services are also the company's main development direction in the second half of the year.

Investment Thesis

The company's performance in the first half of the year was in line with our expectations. In the past six months, the company's two acquisitions have effectively expanded the company's residential management services. After Easy Life's consolidation, the company's revenue will rise. However, considering Easy Life's profitability is far lower than Aoyuan Healthy. It is expected that the company's GPM will decline in 2020, and the company will focus on post-investment management. In the future, gross profit and gross profit margin will further increase.

Due to changes in the company's financial strategy, we adjusted our previous forecasts. We expect the company's FY20/FY21 EPS to be RMB 33.13 cent/RMB 43.94 cent, giving a target price of HK\$9.60 corresponding to 26.1x/19.7x P/E ratios for FY20E and FY21E, Upgrade the rating to buy.

(Current price as of August 28)

Peer Comparison

Company	Stock Code	CMP	Mkt Cap.	P/E			EV/EBITDA		
				TTM	2020	2021	TTM	2020	2021
		(Listed Currency)	(RMB 'mn)						
HK Listed Property Management Company									
CG SERVICES	6098 hk equity	51.00	140,728	56.6x	54.1x	39.3x	27.0x	39.6x	28.1x
A-LIVING	3319 hk equity	39.80	53,067	32.5x	27.1x	20.6x	17.1x	16.7x	12.2x
GREENTOWN SER	2869 hk equity	9.98	32,107	40.8x	40.3x	31.6x	21.2x	24.6x	18.5x
EVERSUNSHINE LS	1995 hk equity	14.10	23,553	85.4x	53.3x	34.7x	16.9x	35.5x	22.6x
CHINA OVS PPT	2669 hk equity	6.85	22,515	39.5x	32.9x	25.6x	-	21.2x	16.1x
S-ENJOY SERVICE	1755 hk equity	24.75	20,248	64.7x	42.0x	28.3x	19.2x	27.8x	18.0x
POWERLONG CM	9909 hk equity	26.30	16,345	53.1x	49.2x	33.9x	8.0x	28.9x	19.0x
CC NEW LIFE	9983 hk equity	10.22	12,724	-	28.3x	20.1x	-	21.9x	13.9x
TIMES NEIGHBOR	9928 hk equity	11.00	10,842	75.2x	40.1x	23.3x	18.6x	25.3x	13.7x
POLY PPT SER	6049 hk equity	66.20	36,631	48.6x	45.2x	33.5x	22.7x	26.1x	18.2x
ZHENRO SERVICES	6958 hk equity	6.30	6,536	-	27.3x	19.3x	-	-	-
COLOUR LIFE	1778 hk equity	4.03	5,863	9.7x	9.3x	8.6x	5.8x	5.2x	4.9x
AOYUAN HEALTHY	3662 hk equity	7.03	5,106	26.3x	18.8x	13.4x	14.6x	11.1x	7.2x
BINJIANG SER	3316 hk equity	18.32	5,064	37.0x	28.1x	21.4x	9.0x	-	-
KAISA PROSPER	2168 hk equity	28.60	4,404	18.6x	15.5x	11.2x	8.8x	8.3x	5.6x
RSUN SER	1971 hk equity	6.85	2,843	-	32.6x	16.9x	-	14.9x	8.4x
LANGUANGJUSTBON	2606 hk equity	53.25	9,484	15.3x	14.1x	10.6x	10.8x	8.1x	5.6x
YINCHENG LS	1922 hk equity	7.63	2,038	42.4x	-	-	-	-	-
XINYUAN PM	1895 hk equity	3.70	2,033	15.1x	-	-	-	-	-
ZHONG AO HOME	1538 hk equity	1.38	1,179	9.2x	7.7x	6.1x	0.8x	3.7x	2.9x
FIN STREET PPT	1502 hk equity	11.18	4,176	25.5x	26.9x	19.9x	-	-	-
HEVOL SERVICES	6093 hk equity	2.24	1,075	50.2x	-	-	11.2x	-	-
RIVERINE CHINA	1417 hk equity	2.39	968	48.8x	-	-	43.7x	-	-
XINGYE WULIAN	9916 hk equity	1.61	644	11.9x	-	-	-	-	-
CLIFFORDML	3686 hk equity	0.60	609	5.7x	-	-	1.1x	-	-
YE XING GROUP	1941 hk equity	1.37	555	12.9x	-	-	-	-	-
Average				35.9x	31.2x	22.0x	15.1x	19.9x	13.4x
Median				37.0x	28.3x	20.6x	14.6x	21.6x	13.8x

source : Bloomberg, Phillip Securities Research

(Current price as of August 26)

FYE DEC	FY18A	FY19A	FY20E	FY21E	FY22E
Valuation Ratio					
P/E ratio	N/A	26.61	19.10	14.40	10.58
P/B ratio	N/A	5.43	4.33	3.39	2.61
Dividend Yield (%)	N/A	1.39%	1.60%	1.84%	2.12%
Per share data (RMB)					
EPS (RMB cent)	N/A	23.78	33.13	43.94	59.82
BVPS	N/A	1.17	1.46	1.86	2.42
DPS (HKD)	0.06	0.10	0.11	0.13	0.15
Growth & Margin					
Growth					
Revenue	41.9%	45.6%	87.0%	38.8%	34.0%
Operating income	18.2%	89.6%	54.3%	31.1%	34.5%
Net income	12.0%	107.9%	48.1%	32.6%	36.2%
Margins					
Gross Profit Margin	33.7%	37.4%	31.7%	31.3%	31.7%
Operating profit Margin	20.0%	26.0%	21.5%	20.3%	20.4%
Net Profit Margin	12.6%	18.3%	14.3%	13.7%	13.9%
Key Ratios					
ROE	19%	23%	24%	25%	28%
ROA	16%	12%	12%	12%	13%

Financials

Income Statement (CNY\$ mn)

	FY18A	FY19A	FY20E	FY21E	FY22E
Commercial operational servi	166	254	356	464	608
Property management service	453	647	1,328	1,874	2,525
Revenue	619	901	1,684	2,338	3,132
Growth (%) YoY	42%	46%	87%	39%	34%
COGS	(410)	(564)	(1,150)	(1,606)	(2,140)
Gross Profit	209	337	534	732	992
Gross margin (%)	33.7%	37.4%	31.7%	31.3%	31.7%
other income	6	29	35	30	31
Selling & distribution	(1)	(2)	(5)	(7)	(9)
Admin	(89)	(126)	(202)	(281)	(376)
Other opex	(1)	(4)	-	-	-
Total opex	(91)	(132)	(207)	(288)	(385)
Operating income (EBIT)	124	234	362	474	638
Operating Margin(%)	20%	26%	21%	20%	20%
Net Finance costs	0	2	(9)	(8)	(6)
Pre-tax profit	108	219	353	467	632
Tax	(30)	(56)	(92)	(121)	(164)
Minority interest	(0)	(1)	(21)	(26)	(33)
Net profit	78	162	241	319	434
Net margin(%)	12.6%	18.3%	14.3%	13.7%	13.9%
EPS (CNY\$ cent)	11.44	23.78	33.13	43.94	59.82

Cash Flow Statement (CNY\$ mn)

	FY18A	FY19A	FY20E	FY21E	FY22E
Operating cash flow					
EBITDA	113	234	368	481	646
Chg in working cap	197	1	261	141	162
Others	(5)	(24)	-	-	-
Cash from operating	305	211	629	622	808
Tax	(81)	(41)	(30)	(92)	(121)
Net Cash from operation	224	170	599	530	687
Investing cash flow					
Capex	(10)	(19)	(10)	(12)	(14)
Acquisition	-	(100)	(277)	-	-
Others	(53)	(127)	-	-	-
Cash from investing	(249)	(241)	(284)	(8)	(9)
FCF	(26)	(71)	315	522	678
Financing cash flow					
Issue of Shares	75	630	-	-	-
Dividends paid	-	(40)	(46)	(53)	(61)
Others	(834)	(810)	118	(11)	(11)
Cash from financing	42	674	72	(64)	(72)
Net increase (decrease) in cash	17	604	387	458	606
Exchange rate or other adj	1	19	-	-	-
Opening cash balance	164	200	823	1,210	1,668
Closing cash balance	200	823	1,210	1,668	2,273

source : Company, Phillip Securities Research
(Current price as of August 26)

Balance Sheet (CNY\$ mn)

	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets					
Property & Equipment	13	20	24	28	34
LT investment and Receivable	-	209	209	209	209
Other Long Term Asset	11	14	291	291	291
Total non-current assets	30	352	633	637	643
Restricted Bank deposits					
Accounts Receivable	87	107	185	256	343
Inventory	0	1	-	-	-
Cash	200	823	1,210	1,668	2,273
Other Short Term Asset	186	104	-	-	-
Total current asset	473	1,034	1,395	1,924	2,617
Total Assets	503	1,386	2,027	2,561	3,260
Liabilities					
Current Liabilities					
Accounts Payable	226	298	536	748	997
Tax Payable	21	30	92	121	164
Bank and other borrowing	123	194	324	324	324
Leasing liabilities	-	3	-	-	-
other Liabilities	7	1	1	1	1
	376	526	952	1,193	1,485
Non-current Liabilities					
Debt	-	-	-	-	-
Deferred tax liabilities	1	1	1	1.08	1.08
Operating lease	-	13	13	13	13
	1	14	14	14	14
Total Liabilities	377	540	966	1,207	1,499
Shareholder's Equity					
Equity Capital	-	6	6	6	6
Retained Earnings	126	839	1,034	1,300	1,673
Minority/Non Controlling Interest	1	1	22	48	81
Shareholder's Equity	126	846	1,062	1,354	1,761
Total Liabilities & Shareholder's Equity	503	1,386	2,027	2,561	3,260

source : Phillip Securities Research

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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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