

Aoyuan Healthy (3662 HK)

Multiple engines driven simultaneously

Hong Kong | Property Management | Update Report

12 October 2020

BUY (Maintain)

CMP HKD 6.21

(Closing price as at 7 October)

TARGET HKD 10.72 (+72.9%)

COMPANY DATA

O/S SHARES (MN) :	726.25
MARKET CAP (HKD MN) :	4531.8
52 - WK HI/LO (HKD):	9.65/3.91

Investment Summary

On September 18, 2020, Aoyuan Healthy announced the acquisition of Zhejiang Liantianmei Corporate Management Company Limited (浙江連天美企業管理有限公司) 55% equity, together with the company's 5% equity acquired in March this year, the company holds a total of 60% equity in the target company. The cash consideration is capped at RMB 691 million. The consideration will be divided into three phases. The company has paid a total of RMB 374 million for the first two phases, and the balance of the remaining consideration in the third phase will be paid on or before March 31, 2021. The total consideration will be based on Liantianmei's 2020 net profit calculated at 16.66x P/E, the valuation is reasonable.

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

The company completed the strategic deployment of its medical beauty sector through acquisitions and formed synergy with other businesses. The acquired company has two private medical beauty hospitals in Hangzhou, with a total operating area of approximately 30,000 sqm, both of which have been awarded 5A Rating Management Standard and possess the operational qualifications for standardized medical institutions. The number of employees is 626, including 73 doctors, 94 nurses and 7 pharmacists. The business includes plastic surgery, micro plastic surgery, dermatology, dentistry, hair transplantation, Chinese medicine and life beauty, etc., mainly services with higher technical barriers.

The average turnover of Liantianmei in the past two fiscal years was approximately RMB 470 million. However, the company has made compliance adjustments and expanded new hospitals in the past two years, resulting in a decline in annual profits. It is expected that as the target company's integration work is completed, profitability will increase. In the first half of 2020, it will record a turnover of RMB 210 million and a net profit of RMB 46.16 million, reflecting the target company's ability to control costs and demand for medical beauty services toughness. The company has more than 300,000 customers, of which long-term customers account for a relatively large proportion, indicating that the business is sticky. The acquisition target is expected to contribute more than 5,000 equity net profits next year.

The consideration for the acquisition is capped at 691 million, that is, if the net profit of the acquisition target in 2020 exceeds 75 million, the upper limit consideration will be required. We expect the net profit target to be achieved. In terms of acquisition funds, the company reallocates the net proceeds from the global offering for the intended use, and reallocates the remained funds originally intended for other purposes to acquisition or investment in service providers providing services complementary to the Group's commercial operational services and property management services, the remained net balance used to acquire health medical beauty service providers after reallocation is RMB 215 million. The company also considers financing through annexation loan, but will take into account the company's overall leverage.

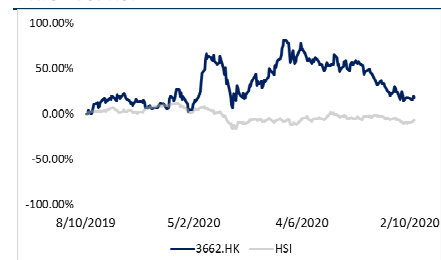
Three business sectors archive synergy

Aoyuan Healthy has further acquired Liantianmei and completed its deployment in the medical beauty sector. In the future, through Aoyuan Healthy's community as an entrance, on the one hand, it has a large group of owners as potential customers, on the other hand, it has a wealth of offline advertising resources and commercial areas, which help Liantianmei reduce sales costs and introduce passenger flow. At the same time, Aoyuan Healthy's property and commercial services cover major areas such as the Greater Bay Area, Beijing Rim, Central China and East China, which will help Liantianmei further expand its scope of influence. We believe that the acquisition enables the company to open up a new blue ocean in addition to traditional property management services, and to further provide the company with sustained revenue growth through community traffic through community VAS.

SHARE HOLDING PATTERN, %

China Aoyuan	54.58
Chiu Man Wai	6.35

PRICE VS. HSI



Source: Wind, PSHK

KEY FINANCIALS

CNY mn	FY18	FY19	FY20E	FY21E
Net Sales	619	901	1,545	2,900
Net Profit	78	162	259	381
EPS, CNY cent	11.44	23.78	35.60	52.43
P/E, x	N/A	23.62	15.77	10.71
BVPS, CNY	N/A	1.17	1.49	2.04
P/BV, x	N/A	4.82	3.78	2.75
DPS (CNY cent)	5.5	9.0	10.4	11.9
Div. Yield (%)	N/A	1.57	1.81	2.08

Source: Company reports, PSHK

Research Analyst

Timothy Chong (+852 2277 6515)

timothy_chong@phillip.com.hk

Investment Thesis

As the acquisition of Liantianmei provides the company with further growth momentum, we have revised our previous forecasts and raised the company's 2020E 2021E EPS to RMB 35.60 cent and RMB 52.43 cent, considering that the company's contribution to revenue after the acquisition will begin to be significant next year, and maintain FY21E target P/E ratio, raise the target price of HK\$10.72 to correspond to the 26.50/19.7x P/E for 2020E and 2021E, and maintain the BUY rating. (Current price as of October 7)

Peer Comparison

Company	Stock Code	CMP	Mkt Cap.	P/E			EV/EBITDA		
				TTM	2020	2021	TTM	2020	2021
(Listed Currency: (HKD 'mn))									
HK Listed Property Management Company									
CG SERVICES	6098 hk equity	51.85	143,074	56.7x	50.4x	35.6x	26.2x	35.9x	24.6x
A-LIVING	3319 hk equity	39.55	52,733	31.9x	26.6x	20.2x	21.2x	16.3x	11.9x
GREENTOWN SER	2869 hk equity	9.90	31,851	39.9x	39.8x	30.9x	21.2x	23.8x	17.9x
EVERSUNSHINE LS	1995 hk equity	15.00	25,056	66.8x	55.0x	35.8x	30.0x	34.4x	22.0x
CHINA OVS PPT	2669 hk equity	6.30	20,707	36.4x	30.7x	24.0x	-	19.2x	14.5x
S-ENJOY SERVICE	1755 hk equity	19.90	16,315	51.3x	33.0x	22.2x	19.2x	21.4x	13.6x
POWERLONG CM	9909 hk equity	27.45	17,060	54.7x	50.5x	35.0x	8.0x	29.7x	19.4x
CC NEW LIFE	9983 hk equity	8.51	10,595	-	23.2x	16.3x	-	13.5x	9.4x
TIMES NEIGHBOR	9928 hk equity	9.88	9,738	66.6x	35.8x	20.8x	18.6x	21.9x	11.6x
POLY PPT SER	6049 hk equity	62.00	34,307	44.9x	41.9x	30.9x	22.7x	24.0x	16.6x
ZHENRO SERVICES	6958 hk equity	5.35	5,551	-	22.9x	16.2x	-	-	-
COLOUR LIFE	1778 hk equity	3.80	5,528	9.1x	8.6x	8.0x	5.3x	4.9x	4.6x
AOYUAN HEALTHY	3662 hk equity	6.24	4,532	23.0x	16.4x	11.0x	14.6x	8.8x	5.1x
BINJIANG SER	3316 hk equity	16.02	4,428	31.9x	20.3x	16.7x	9.0x	-	-
KAISA PROSPER	2168 hk equity	23.15	3,565	14.8x	13.3x	9.7x	11.3x	5.9x	3.8x
RSUN SER	1971 hk equity	5.82	2,415	-	23.7x	14.2x	-	11.3x	6.3x
LANGUANGJUSTBON	2606 hk equity	44.50	7,926	12.6x	11.8x	8.8x	10.8x	6.2x	4.2x
YINCHENG LS	1922 hk equity	7.23	1,932	39.6x	-	-	-	-	-
XINYUAN PM	1895 hk equity	3.16	1,736	12.7x	-	-	-	-	-
ZHONG AO HOME	1538 hk equity	0.90	769	5.4x	4.9x	3.9x	4.1x	2.4x	1.9x
FIN STREET PPT	1502 hk equity	9.54	3,563	21.4x	22.6x	17.4x	-	-	-
HEVOL SERVICES	6093 hk equity	2.15	1,032	47.5x	-	-	11.2x	-	-
RIVERINE CHINA	1417 hk equity	2.25	911	45.3x	1.5x	1.2x	20.7x	-	-
XINGYE WULIAN	9916 hk equity	1.50	600	11.0x	-	-	-	-	-
CLIFFORDML	3686 hk equity	0.54	548	5.5x	-	-	2.1x	-	-
YE XING GROUP	1941 hk equity	1.25	507	11.6x	-	-	-	-	-
			Average	32.2x	26.7x	18.9x	15.1x	17.5x	11.7x
			Median	31.9x	23.5x	17.1x	14.6x	17.7x	11.8x

source : Bloomberg, PSHK

(Current price as of October 7)

FYE DEC	FY18A	FY19A	FY20E	FY21E	FY22E
Valuation Ratio					
P/E ratio	N/A	23.62	15.77	10.71	8.47
P/B ratio	N/A	4.82	3.78	2.75	2.05
Dividend Yield (%)	N/A	1.57%	1.81%	2.08%	2.39%
Per share data (RMB)					
EPS (RMB cent)	N/A	23.78	35.60	52.43	66.31
BVPS	N/A	1.17	1.49	2.04	2.74
DPS (HKD)	0.06	0.10	0.11	0.13	0.15
Growth & Margin					
Growth					
Revenue	41.9%	45.6%	71.5%	87.8%	23.7%
Operating income	18.2%	89.6%	64.7%	61.7%	24.7%
Net income	12.0%	107.9%	59.1%	47.3%	26.5%
Margins					
Gross Profit Margin	33.7%	37.4%	32.7%	33.5%	33.8%
Operating profit Margin	20.0%	26.0%	25.0%	21.5%	21.7%
Net Profit Margin	12.6%	18.3%	16.7%	13.1%	13.4%
Key Ratios					
ROE	19%	24%	26%	24%	27%
ROA	16%	12%	13%	13%	13%

source : PSHK

Financials

Income Statement (CNY\$ mn)

	FY18A	FY19A	FY20E	FY21E	FY22E
Commercial operational servi	166	254	356	464	536
Property management service	453	647	1,189	2,437	3,052
Revenue	619	901	1,545	2,900	3,587
Growth (%) YoY	42%	46%	71%	88%	24%
COGS	(410)	(564)	(1,039)	(1,929)	(2,373)
Gross Profit	209	337	506	972	1,214
Gross margin (%)	33.7%	37.4%	32.7%	33.5%	33.8%
other income	6	29	35	30	30
Selling & distribution	(1)	(2)	(31)	(145)	(179)
Admin	(89)	(126)	(124)	(232)	(287)
Other opex	(1)	(4)	-	-	-
Total opex	(91)	(132)	(154)	(377)	(466)
Operating income (EBIT)	124	234	386	624	778
Operating Margin(%)	20%	26%	25%	22%	22%
Net Finance costs	0	2	(9)	(9)	(8)
Pre-tax profit	108	219	377	615	770
Tax	(30)	(56)	(98)	(160)	(200)
Minority interest	(0)	(1)	(21)	(74)	(88)
Net profit	78	162	259	381	482
Net margin(%)	12.6%	18.3%	16.7%	13.1%	13.4%
EPS (CNY\$ cent)	11.44	23.78	35.60	52.43	66.31

Cash Flow Statement (CNY\$ mn)

	FY18A	FY19A	FY20E	FY21E	FY22E
Operating cash flow					
EBITDA	113	234	392	631	787
Chg in working cap	197	1	121	266	132
Others	(5)	(24)	-	-	-
Cash from operating	305	211	513	897	918
Tax	(81)	(41)	(30)	(98)	(160)
Net Cash from operation	224	170	483	799	758
Capex					
Capex	(10)	(19)	(10)	(12)	(14)
Acquisition	-	(100)	(651)	(317)	-
Others	(53)	(127)	-	-	-
Cash from investing	(249)	(241)	(658)	(326)	(11)
FCF	(26)	(71)	(175)	473	748
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 c	17	604	(103)	408	676
Exchange rate or other adj	1	19	-	-	-
Opening cash balance	164	200	823	720	1,128
Closing cash balance	200	823	720	1,128	1,804

Balance Sheet (CNY\$ mn)

	FY18A	FY19A	FY20E	FY21E	FY22E
Non-current assets					
Property & Equipment	13	20	24	28	34
LT investment and Receivabl	-	209	209	209	209
Other Long Term Asset	11	14	665	982	982
Total non-current assets	30	352	1,007	1,328	1,334
Restricted Bank deposits					
Accounts Receivable	87	107	169	318	393
Inventory	0	1	-	-	-
Cash	200	823	720	1,128	1,804
Other Short Term Asset	186	104	104	104	104
Total current asset	473	1,034	993	1,550	2,301
Total Assets	503	1,386	2,000	2,878	3,635
Liabilities					
Current Liabilities					
Accounts Payable	226	298	484	898	1,105
Tax Payable	21	30	98	160	200
Bank and other borrowing	123	194	324	324	324
Leasing liabilities	-	3	-	-	-
other Liabilities	7	1	1	1	1
	376	526	906	1,383	1,630
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	920	1,397	1,644
Shareholder's Equity					
Equity Capital	-	6	6	6	6
Retained Earnings	126	839	1,051	1,379	1,800
Minority/Non Controlling Inter	1	1	22	96	185
Shareholder's Equity	126	846	1,079	1,482	1,991
Total Liabilities & Shareholde	503	1,386	2,000	2,878	3,635

(Closing price as at 7 October)

source : PSHK

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report.

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2020 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA
PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

www.phillip.co.id

THAILAND
Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

UNITED STATES
Phillip Futures Inc.

141 W Jackson Blvd Ste 3050

The Chicago Board of Trade Building

Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA
Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA
Phillip Financial Advisory (Shanghai) Co. Ltd.

No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE
King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA
PhillipCapital Australia

Level 10, 330 Collins Street
Melbourne VIC 3000 Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

www.phillipcapital.com.au

HONG KONG
Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA
PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM
King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA
Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

www.ashaphillip.net/home.htm