

A-Living (3319 HK)

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Company Update

BUY

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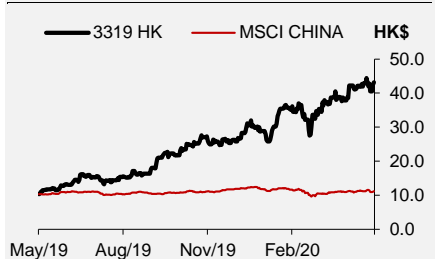
Close price: HK\$40.50
Target Price: HK\$50.00 (+23.5%)
Prior TP: HK\$35.30

Key Data

HKEx code	3319
12 Months High (HK\$)	45.20
12 Month Low (HK\$)	10.31
3M Avg Dail Vol. (mn)	6.31
Issue Share (mn)	433.33
Market Cap (HK\$m)	54,000.03
Fiscal Year	12/2019
Major shareholder (s)	Agile Group (54%)

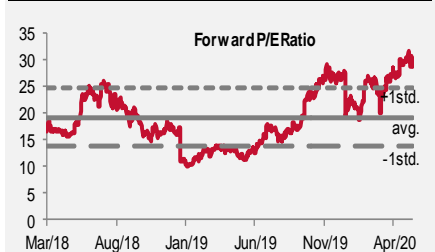
Source: Company data, Bloomberg, OP Research
 Closing price are as of 27/05/2020

Price Chart



	1mth	3mth	6mth
Absolute %	4.5	12.2	62.2
Rel. MSCI CHINA %	3.9	16.1	60.5

PE Chart



Company Profile

A-Living Services Co., Ltd. offers property management services. The Company provides hydropower maintenance, interior decoration works, landscaping works, parking management, home cleaning services, and other services. A-Living Services offers services in China.

Positive read-across from April property sales

- April property sales resumed yoy growth, positive for non-community based VAS. Post-acquisition efficiency enhancement is on the way.
- We tune up our FY20E/21E earnings estimates by 3.2%/4.3% to RMB1,675mn/RMB2,172mn respectively.
- Reiterate BUY with TP HK\$50.00 revised up from HK\$35.3 based on 27x FY21E P/E, or 1.2x PEG.

Positive read-across from April property sales: April property sales resumed yoy positive growth (i.e. +0.6%) for the first time in 2020E, according to CRIC, thanks to the gradual release of nationwide lock down. The sales and marketing activities of property developers are also moving back to offline sales center from online channels. We see it positive for the non-community based VAS segment of A-Living. In addition, A-Living receives sales commission from Agile for on-site destocking support starting from April, which becomes an additional mitigation to the epidemic impacts on 1H VAS revenue.

CMIG Futurelife to be consolidated from 2Q: we expect Futurelife/New Futurelife to be consolidated in 2Q20E/late 2021E respectively. Post-acquisition efficiency enhancement through personnel optimization and IT system upgrade is on the way, which we believe will gradually skim the SG&A ratio of Futurelife by 1-3ppts in the near-term.

We tune up our FY20/21E net profit estimates by 3.2%/4.3% to RMB1,675mn/RMB2,172mn respectively. We tune up our FY20E revenue by 2.7% to RMB9,820mn as we are more positive on the VAS to non-property owner segment - the lockdown only affected 3-6 weeks of on-site sales assistance services. We revise down our FY21E revenue estimate by 7.2% to RMB13,129mn on lower growth expectation for community-based VAS. Meanwhile, we now factor-in contribution from New Futurelife from FY22E onwards. As a result, our FY20/21E adjusted diluted EPS is tuned up by 3.2%/4.3% to HK\$1.419/HK\$1.841 respectively.

Reiterate BUY. Our new TP HK\$50.00 is based on 27x FY21E P/E (revised up from 20x FY21E P/E), implying 1.2x PEG, at 8% discount to CG Services (6098 HK, BUY) on post-VSA execution risks. A-Living now ranks No.4 in 2020 CIA ranking for PM sector, up 3 places from No.7 in 2019.

The company has submitted the application for the full circulation of the domestic unlisted shares of H-share companies in January. We believe the application, once approved, will better align the interests of the onshore/offshore shareholders and motivate the mgmt team more effectively. Reiterate BUY.

Risks: (1) execution risks for M&A projects and expanded third-party projects; (2) faster than expected increase in labor costs, (3) worse than expected margin in BMS segment

Exhibit 1: Forecast and Valuation

Year to Dec (RMB mn)	FY18	FY19	FY20E	FY21E	FY22E
Revenue	3,376.7	5,127.3	9,820.0	13,128.8	15,869.3
Growth (%)	91.8	51.8	91.5	33.7	20.9
Net Profit	801.0	1,230.8	1,674.6	2,172.3	2,715.6
Growth (%)	176.5	53.6	36.1	29.7	25.0
Diluted EPS (HK\$)	0.741	1.043	1.419	1.841	2.301
EPS growth (%)	70.4	40.7	36.1	29.7	25.0
Change to previous EPS (%)			3.2	4.3	
Consensus EPS (HK\$)			1.460	1.894	2.394
ROE (%)	23.2	21.2	24.9	26.7	26.9
P/E (x)	54.6	38.8	28.5	22.0	17.6
P/B (x)	8.1	7.7	6.6	5.3	4.3
Yield (%)	0.4	1.3	0.9	1.1	1.4
DPS (HK\$)	0.180	0.509	0.355	0.460	0.575

Source: Bloomberg, OP Research

Exhibit 2: Earnings Revision

(RMB mn)	FY20E			FY21E			OP Comments
	New	Old	% Chg	New	Old	% Chg	
Revenue	9,820	9,562	2.7	13,129	14,145	(7.2)	
Gross profit	3,050	2,996	1.8	4,006	4,458	(10.1)	
Gross margin	31.1%	31.3%	(0.3)	30.5%	31.5%	(1.0)	
Opex	(646)	(605)	6.8	(833)	(846)	(1.5)	
EBIT	2,419	2,401	0.8	3,184	3,622	(12.1)	
Net Profit	1,675	1,623	3.2	2,172	2,083	4.3	
Diluted EPS (HK\$)	1.419	1.375	3.2	1.841	1.766	4.3	

Source: OP Research

Exhibit 3: CIA ranking for property management companies in 2020

Ranking in 2020	Company Name	Ranking in 2019
1	Country Garden Services	3
2	Greentown Service	2
3	Poly Services	5
4	A-Living Services	7
5	Evergrande Services	6
6	Colorlife Services	N.A.
7	Longfor Services	9
8	Gemdale PM	8
9	China Merchants PM	N.A.
10	Jinke Services	10

Source: CIA

Financial Summary

Year to Dec	FY18	FY19	FY20E	FY21E	FY22E
Income Stat. (RMB mn)					
Prop management services	1,625	2,830	6,719	9,135	10,896
VAS to non-property owners	1,463	1,812	2,367	2,902	3,372
VAS to property owners	289	485	734	1,092	1,601
Turnover	3,377	5,127	9,820	13,129	15,869
YoY%	92	52	92	34	21
COGS	(2,087)	(3,244)	(6,770)	(9,122)	(10,911)
Gross profit	1,290	1,883	3,050	4,006	4,958
Gross margin	38.2%	36.7%	31.1%	30.5%	31.2%
Other income	41	39	15	10	10
Selling & distribution	(46)	(43)	(60)	(78)	(96)
Admin	(302)	(295)	(586)	(755)	(855)
R&D	0	0	0	0	0
Other opex	(2)	0	0	0	0
Total opex	(350)	(338)	(646)	(833)	(951)
Operating profit (EBIT)	981	1,584	2,419	3,184	4,017
Operating margin	29.0%	30.9%	24.6%	24.2%	25.3%
Provisions	3	(12)	0	0	0
Interest Income	93	103	128	161	230
Finance costs	(1)	(16)	2	2	2
Profit after financing costs	1,075	1,659	2,549	3,346	4,249
Associated companies & JVs	0	23	0	0	0
Pre-tax profit	1,075	1,681	2,549	3,346	4,249
Tax	(264)	(390)	(612)	(803)	(1,020)
Minority interests	(10)	(61)	(263)	(371)	(514)
Net profit	801	1,231	1,675	2,172	2,716
YoY%	176	54	36	30	25
Net margin	23.7%	24.0%	17.1%	16.5%	17.1%
EBITDA	1,014	1,652	2,478	3,244	4,077
EBITDA margin	30.0%	32.2%	25.2%	24.7%	25.7%
EPS (RMB)	0.618	0.923	1.256	1.629	2.037
YoY%	70	41	36	30	25
DPS (HK\$)	0.180	0.509	0.355	0.460	0.575
Year to Dec	FY18	FY19	FY20E	FY21E	FY22E
Cash Flow (RMB mn)					
EBITDA	1,014	1,652	2,478	3,244	4,077
Chg in working cap	0	0	434	235	110
Others	12	264	0	0	0
Operating cash	1,026	1,915	2,912	3,479	4,187
Interest received	0	0	2	2	2
Tax	(143)	(315)	(310)	(612)	(803)
Net cash from operations	883	1,600	2,605	2,869	3,386
Capex	(19)	(15)	(28)	(38)	(45)
Investments	(118)	(1,790)	(2,000)	(500)	(500)
Dividends received	0	7	0	0	0
Sales of assets	1	3	0	0	0
Interests paid	0	19	128	161	230
Others	24	2	0	0	0
Investing cash	(112)	(1,775)	(1,900)	(377)	(316)
FCF	771	(175)	705	2,492	3,070
Issue of shares	3,313	0	0	0	0
Buy-back	0	0	0	0	0
Minority interests	1	19	0	0	0
Dividends paid	(50)	(400)	(600)	(419)	(543)
Net change in bank loans	(12)	(27)	0	0	0
Others	(110)	(19)	0	0	0
Financing cash	3,142	(426)	(600)	(419)	(543)
Net change in cash	3,913	(601)	105	2,073	2,527
Exchange rate or other Adj	15	1	0	0	0
Opening cash	880	4,808	4,207	4,312	6,385
Closing cash	4,808	4,207	4,312	6,385	8,912
CFPS (HK\$)	0.817	1.356	2.208	2.431	2.870

Source: Company, OP Research

Year to Dec	FY18	FY19	FY20E	FY21E	FY22E
Ratios					
Gross margin (%)	38.2	36.7	31.1	30.5	31.2
Operating margin (%)	29.0	30.9	24.6	24.2	25.3
Net margin (%)	23.7	24.0	17.1	16.5	17.1
Selling & dist'n exp/Sales (%)	1.4	0.8	0.6	0.6	0.6
Admin exp/Sales (%)	9.0	5.8	6.0	5.7	5.4
Payout ratio (%)	24.3	48.8	25.0	25.0	25.0
Effective tax (%)	24.6	23.5	24.0	24.0	24.0
Total debt/equity (%)	0.0	0.5	0.5	0.4	0.3
Net debt/equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Current ratio (x)	3.5	2.5	1.6	1.7	1.8
Quick ratio (x)	3.5	2.5	1.6	1.7	1.8
Inventory T/O (days)	3	1	1	1	1
AR T/O (days)	126	156	156	156	156
AP T/O (days)	204	196	196	196	196
Cash conversion cycle (days)	(76)	(38)	(38)	(38)	(38)
Asset turnover (x)	0.7	0.6	0.9	0.8	0.8
Financial leverage (x)	1.4	1.4	1.7	1.9	1.9
EBIT margin (%)	29.0	30.9	24.6	24.2	25.3
Interest burden (x)	1.1	1.1	1.1	1.1	1.1
Tax burden (x)	0.7	0.7	0.7	0.6	0.6
Return on equity (%)	23.2	21.2	24.9	26.7	26.9
ROIC (%)	110.6	78.6	61.4	66.4	81.2
Year to Dec	FY18	FY19	FY20E	FY21E	FY22E
Bal. Sheet (RMB mn)					
Fixed assets	80	159	177	202	233
Intangible assets & goodwill	1,212	1,755	1,707	1,659	1,613
Asso. companies & JVs	0	584	584	584	584
Long-term investments	0	25	2,025	2,525	3,025
Other non-current assets	16	10	10	10	10
Non-current assets	1,308	2,533	4,502	4,979	5,465
Inventories	15	12	26	35	42
AR	1,165	2,189	4,193	5,606	6,776
Prepayments & deposits	0	0	0	0	0
Other current assets	1	446	446	446	446
Cash	4,808	4,207	4,312	6,385	8,912
Current assets	5,989	6,855	8,976	12,471	16,176
AP	1,169	1,738	3,628	4,888	5,847
Tax	192	310	612	803	1,020
Accruals & other payables	365	614	1,176	1,572	1,900
Bank loans & leases	0	28	28	28	28
CB & othe debts	0	0	0	0	0
Other current liabilities	0	0	0	0	0
Current liabilities	1,726	2,690	5,443	7,291	8,795
Bank loans & leases	0	19	19	19	19
CB & othe debts	0	0	0	0	0
Deferred tax & others	60	173	173	173	173
MI	88	315	578	949	1,462
Non-current liabilities	148	507	769	1,140	1,654
Total net assets	5,422	6,191	7,265	9,019	11,192
Shareholder's equity	5,422	6,191	7,265	9,019	11,192
Share capital	1,333	1,333	1,333	1,333	1,333
Reserves	4,089	4,858	5,932	7,686	9,858
BVPS (HK\$)	5.02	5.25	6.16	7.64	9.48
Total debts	0	33	33	33	33
Net cash/(debts)	4,809	4,179	4,284	6,357	8,884

Exhibit 4: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER		EPS					P/B		EV/		Net		Gross	Net	ROE		Sh px	Sh px	
					Hist	PER	PER	EPS FY1	FY2	3-Yr EPS	Div yld	Div yld	Hist	FY1	Ebitda	Ebitda	gearing	margin	margin	ROE	FY1	1-mth	3-mth	
					(x)	FY1 (x)	FY2 (x)	YoY%	YoY%	Cagr (%)	PEG (x)	Hist (%)	FY1 (%)	(x)	(x)	Hist	Cur Yr	Hist (%)	Hist (%)	Hist (%)	(%)	%	%	
A-Living Servi-H	3319 HK	40.50	6,965	29.6	38.8	28.5	22.0	36.1	29.7	30.2	0.95	1.3	0.9	7.72	6.58	30.2	20.1	Net cash	36.7	24.0	21.2	24.9	3.9	11.6
HSI		23,301.4			9.7	10.8	9.3	(10.5)	16.3	5.4	2.02	4.0	3.7	0.97	0.94						10.0	8.7	(4.0)	(13.0)
HSCEI		9,567.43			7.9	8.3	7.4	(5.6)	12.2	5.8	1.42	4.0	4.0	1.00	0.94						12.7	11.3	(3.1)	(9.7)
CSI300		3,845.61			14.4	12.2	10.6	18.3	15.1	15.3	0.8	2.2	2.6	1.7	1.5						11.6	12.6	0.6	(5.9)
China Property Management Peers																								
Adjusted sector avg*					50.4	29.1	21.9	33.9	33.0	35.5	1.1	0.5	0.9	9.6	7.6	25.6	19.3	0.0	27.1	11.7	27.0	24.6	7.0	9.6
Country Garden S	6098 HK	35.75	12,697	40.5	52.6	40.8	29.8	28.8	37.1	33.2	1.2	0.3	0.6	16.7	12.4	40.1	29.2	0.0	31.6	17.3	43.8	33.3	0.0	13.1
China Overseas P	2669 HK	8.10	3,434	15.2	49.5	38.6	30.2	28.4	27.6	27.2	1.4	0.5	0.8	17.6	13.1	31.5	25.7	0.0	20.0	9.8	40.8	36.3	(3.5)	23.1
Colour Life Serv	1778 HK	3.59	659	1.6	9.1	8.1	7.2	12.7	11.7	9.6	0.8	5.0	4.0	1.2	1.1	5.1	5.1	15.8	35.3	13.0	14.2	13.9	8.1	(16.5)
Greentown Servic	2869 HK	10.30	3,916	9.5	55.9	42.3	32.7	32.4	29.3	29.2	1.4	0.7	0.9	9.6	8.1	30.7	28.5	0.0	18.0	5.6	18.8	20.0	6.0	2.0
S-Enjoy Service	1755 HK	19.16	2,022	5.8	52.0	35.2	24.7	47.6	42.6	42.6	0.8	0.6	1.4	15.7	12.6	33.7	23.9	0.0	29.6	13.9	31.7	35.9	18.1	13.9
Kaisa Prosperity	2168 HK	30.80	556	3.1	24.3	17.4	12.5	39.7	39.4	39.6	0.4	0.6	1.7	6.0	4.9	15.0	10.3	0.0	30.0	13.0	28.0	31.0	17.6	0.7
Ever Sunshine Li	1995 HK	11.06	2,192	10.9	70.0	42.9	28.1	63.2	52.9	54.1	0.8	0.2	0.7	13.7	11.2	40.5	28.9	0.0	29.6	11.9	21.9	25.9	10.7	35.0
Shenzhen World-A	002285 CH	2.63	749	9.3	65.8	8.9	9.4	637.5	(5.1)	N/A	N/A	0.2	0.5	1.0	0.9	13.8	5.9	0.0	12.7	1.2	(1.1)	8.3	(0.8)	(19.6)
Nacity Propert-A	603506 CH	28.16	528	4.7	33.1	28.0	22.8	18.5	22.8	22.6	1.2	0.8	N/A	5.0	4.0	20.2	15.9	0.0	22.4	9.2	16.5	16.8	36.7	34.5
Commercial Property Management Peers																								
Adjusted sector avg*					13.5	21.8	15.4	(10.8)	40.5	(37.9)	6.7	0.4	7.3	4.2	3.9	(13.4)	15.0	78.6	29.9	0.3	(4.0)	10.2	0.6	(23.7)
Jones Lang Lasal	JLL US	100.31	5,179	65.0	9.1	13.0	9.4	(29.8)	38.9	4.6	2.8	0.4	0.7	1.0	0.9	8.0	11.7	44.8	N/A	3.0	11.9	6.8	(6.1)	(30.8)
Cbre Group Inc-A	CBRE US	43.94	14,727	113.3	11.5	15.6	12.8	(26.4)	21.9	0.9	16.7	N/A	0.0	2.4	2.3	9.8	11.1	47.8	21.8	5.4	23.0	13.6	6.2	(22.3)
Firstservice-Wi	FSV CN	130.13	4,061	10.1	N/A	42.7	29.1	N/A	46.7	(183.8)	N/A	0.6	28.3	9.2	8.7	(79.8)	24.1	131.1	32.1	(10.5)	(74.7)	N/A	7.9	(5.6)
Colliers Interna	CIGI CN	70.83	2,051	13.2	19.8	16.0	10.3	23.8	54.6	26.6	0.6	0.2	0.2	4.2	3.7	8.6	12.9	90.8	35.7	3.4	23.7	N/A	(5.5)	(36.2)

* Outliners and "N/A" entries are in red and excl. from the calculation of averages

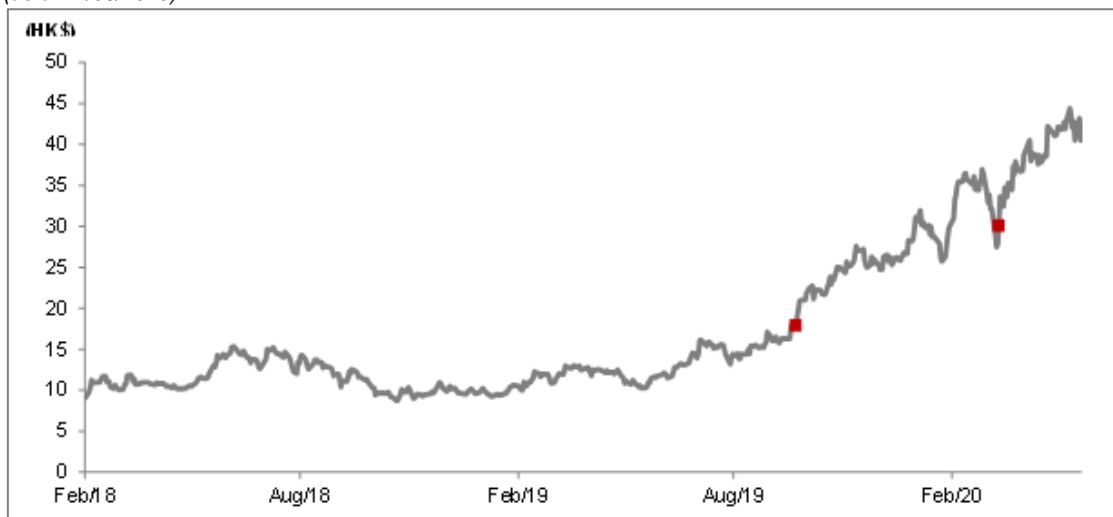
Source: Bloomberg, OP Research

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
25/05/2020	HKBN	1310	Challenging to becoming BN leader	NR	Kevin Tam
18/05/2020	Skyworth	751	The sky getting clear	NR	Kevin Tam
14/05/2020	Ausnutria Dairy	1717	Premium products brought up GPM in 1Q20	BUY	Megan Jin/Dallas Cai
14/05/2020	China Youzan	8083	1Q loss narrowed as economies of scale kicking in	BUY	Dallas Cai
05/05/2020	HKTV	1137	HK based ecommerce on the rise	BUY	Kevin Tam/Megan Jin
23/04/2020	Edvantage Group	382	License fee saving may come earlier	BUY	Megan Jin/Dallas Cai
22/04/2020	361 Degrees Intl	1361	1Q20 retail sales in line	BUY	Megan Jin
21/04/2020	Xtep Intl	1368	1Q20 sales performance better than feared	BUY	Megan Jin/Dallas Cai
20/04/2020	Li-Ning	2331	1Q20 delivered satisfactory retail sales	BUY	Megan Jin/Dallas Cai
16/04/2020	Anta Sports	2020	Robust online FILA sales to drive 1Q20 sales beat	BUY	Dallas Cai/Megan Jin
15/04/2020	China Youzan	8083	FY19 GMV saw growth acceleration	BUY	Dallas Cai
02/04/2020	Greentown Services	2869	FY19 results largely in line	HOLD	Dallas Cai
31/03/2020	TCL Electronics	1070	FY19 results up to expectations	BUY	Dallas Cai
30/03/2020	Li-Ning	2331	A head start in FY20E with resilient operation	BUY	Dallas Cai/Megan Jin
27/03/2020	CH Display OPT	334	Lower order visibility ahead in FY20E	HOLD	Dallas Cai
27/03/2020	ChinaSoft Int'l	354	Cloud business ready to accelerate in FY20E	BUY	Dallas Cai
25/03/2020	Anta Sports	2020	FY20E strive for positive growth	BUY	Dallas Cai/Megan Jin
25/03/2020	China Overseas PPT	2669	FY19 results up to expectations	HOLD	Dallas Cai
23/03/2020	CG Services	6098	FY19 saw solid set of results	BUY	Dallas Cai
20/03/2020	Kingdee Int'l	268	Ambitious cloud target to weigh on FY20E earnings	HOLD	Dallas Cai
20/03/2020	Xtep Intl	1368	FY19 results in line with expectations	BUY	Dallas Cai/Megan Jin
19/03/2020	A-Living	3319	Unfolding a new 3-year plan	BUY	Dallas Cai
19/03/2020	Ausnutria Dairy	1717	Robust growth momentum to keep up in FY20E	BUY	Dallas Cai/Megan Jin
19/03/2020	361 Degrees Intl	1361	FY19 results up to expectations	BUY	Megan Jin
18/03/2020	Sunny Optical	2382	FY19 results clean beat on GPM	BUY	Dallas Cai
10/03/2020	Q Tech	1478	FY19 results beat on better CCM product mix	BUY	Dallas Cai
09/03/2020	Edvantage Group	382	1H20/21E positive profit alert - BUY	BUY	Dallas Cai/Megan Jin

Historical recommendations and target price: A-Living (3319 HK)

(as of 27/05/2020)



	DATE	RATING	TP (HK\$)	CLOSE(HK\$)
1	02 Oct 2019	BUY	25.90	18.08
2	19 Mar 2020	BUY	35.30	28.05

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