

# Aoyuan Healthy Life Group Company Limited

## Profitability Over Scale, Growth Quality Underappreciated

Aoyuan Healthy Life's delivered a strong set of 2019 results, which have beaten our earnings estimate by 19%. At 17.4x 2020E P/E (Sector average: 25x), we believe the stock is underappreciated by investors despite the strong results. We have raised our target price and earnings forecasts. We reiterate our Buy rating.

### We raise our Target Price by 43% and 2020-21E Net Profit by 20-22%

On the back of a stronger than expected results, we have raised our target price by 43% to HK\$10/sh, while our 2020-21E net profit has also been lifted by 20-22%. Aoyuan Healthy life has achieved GP Margins of 37.4% in 2019, which is among the highest in the HK-listed property management companies (industry average: 31.2%). We expect the high profit margins to remain going forward as the company will continue to enjoy economies of scale as it grows its GFA Under Management.

### 2019 Results beat AMTD Estimates by 19% on stronger profit margins

Aoyuan Healthy Life announced a net profit of RMB163.1m, rising 108.3% YoY. If we exclude the one-off Listing Expenses, the core net profit comes in at RMB178.4m, beating AMTD estimate by 19% due to stronger than expected profit margins. GP Margins improved to 37% (2018: 34%), while core net margins rose to 20% (2018: 15%). Revenues came in at RMB900m, in-line with our estimates.

### Behind the high profit margins: Quality over Quantity

One of investors' main concerns on Aoyuan Healthy Life has been on their relatively lack of property management projects developed by 3<sup>rd</sup> party developers. While many property management peers have been driving growth through M&A and 3<sup>rd</sup> party contracts, Aoyuan Healthy Life have carefully focused on growth in not only scale, but also profitability. By carefully choosing property projects to manage (mostly parent company projects and 3<sup>rd</sup> party projects from Aoyuan's JV partners), it underpins a stronger operational efficiency and thus a better cost control and it is reflected in the better than industry average GP Margins.

### Expansion into Healthcare and Beauty an ongoing process

Aoyuan Healthy Life is on track to develop its Healthcare business line, having signed a cooperative agreement with parent company China Aoyuan Group to manage the Shanghai Fengxian Project. Aoyuan Healthy Life will be providing the service of early stage consulting, leasing and property management for the project. Moreover, the company has already added a strong team of Healthcare specialists to expand the Healthcare business, including Executive Vice President Mr. Su Bo, ex-President of Panyu Central Hospital and Mr. Bai Chengmin, ex-CEO of Oracle Medical Group.

### 17.4x 2020E P/E for a 35% earnings CAGR stock

Aoyuan Healthy Life is trading at valuations of 17.4x 2020E P/E, which we believe is attractive considering the 35% net profit CAGR that we are expecting for 2019-2022E. Such valuations is also significantly below the property management sector's average of 25x. We believe the discounted valuations is unwarranted considering its industry high profit margins and thus a high 2020E ROE of 27%. Our Target Price of HK\$10.0/sh is based on a DCF valuation methodology and implies a 2020E P/E of 23.7x.

Stock code: 3662.HK

Rating: Buy

Price target (HK\$)	10.0
Previous price target (HK\$)	7.0
Current price (HK\$, 25 Mar 2020)	6.73
Upside/downside %	48%
Market cap (HK\$ m)	5,431
Market cap (US\$ m)	701
Avg daily turnover (US\$ m)	8.5

Source: Bloomberg, AMTD Equity Research

### Key forecasts

(RMB m)	2019	2020e	2021e	2022e
Revenue	901	1,374	1,898	2,450
yoy %	45.6%	52.6%	38.1%	29.1%
Net profit	163	253	352	442
yoy %	108.3%	57.4%	39.1%	25.5%
Core Net Profit	178	253	352	442
yoy %	105.7%	57.4%	39.1%	25.5%
Gross margin	37.4%	37.4%	37.5%	37.0%
Net gearing	Net cash	Net cash	Net cash	Net cash
EPS	0.26	0.35	0.48	0.61
DPS	0.10	0.14	0.19	0.24
BPS	0.18	1.16	1.42	1.63

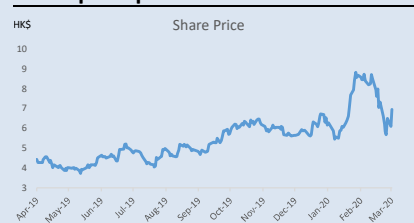
Source: Company data, AMTD Equity Research

### Valuation

	2019	2020e	2021e	2022e
P/E	23.2	17.4	12.5	10.0
P/BV	32.9	5.2	4.3	3.7
Div. yield	1.6%	2.3%	3.2%	4.0%
ROE	37.3%	27.0%	31.8%	35.0%
ROA	11.7%	17.0%	20.6%	22.1%

Source: Bloomberg, AMTD Equity Research

### Share price performance



Source: Bloomberg

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Figure 1: Aoyuan Healthy Life Financial Forecasts and Key ratios

PnL, RMB mn	2018	2019	2020e	2021e	2022e	Balance Sheet, RMB mn	2018	2019	2020e	2021e	2022e
Revenue	618.8	900.8	1,374.2	1,898.0	2,450.3	Property, plant and equipment	12.7	20.2	20.2	20.2	20.2
COGS	(410.1)	(563.7)	(860.2)	(1,187.0)	(1,543.8)	Intangible assets	3.0	4.3	3.5	2.8	2.2
<b>Gross Profit</b>	<b>208.8</b>	<b>337.1</b>	<b>514.0</b>	<b>711.1</b>	<b>906.6</b>	Goodwill	3.5	3.5	3.5	3.5	3.5
Selling and marketing expenses	(1.3)	(2.5)	(2.2)	(3.0)	(4.1)	Deferred tax assets	7.4	2.6	2.6	2.6	2.6
General and administrative expenses	(89.0)	(126.0)	(174.5)	(237.3)	(306.3)	Deposits paid for acquisition of PPE	1.1	-	-	-	-
Impairment losses on trade receivable	(1.0)	(3.5)	(0.5)	(0.6)	(1.0)	Deferred contract costs	2.3	2.9	2.9	2.9	2.9
IPO expenses	(15.5)	(15.9)	-	-	-	Others	-	318.6	318.6	318.6	318.6
Other income and other gains and loss	6.6	31.8	15.1	19.3	19.3	<b>Non-current assets</b>	<b>30.0</b>	<b>352.2</b>	<b>351.3</b>	<b>350.6</b>	<b>350.0</b>
Interests on bank borrowing	(0.0)	(2.3)	-	-	-	Inventories and other contract costs	0.1	0.7	0.2	0.2	0.2
<b>Profit before tax</b>	<b>108.5</b>	<b>218.6</b>	<b>351.9</b>	<b>489.6</b>	<b>614.5</b>	Trade and other receivables	87.0	106.9	107.3	127.1	211.6
Income tax expense	(30.2)	(55.5)	(98.5)	(137.1)	(172.1)	Deferred contract costs	9.5	5.0	17.0	(13.2)	18.1
<b>Net profit</b>	<b>78.3</b>	<b>163.1</b>	<b>253.4</b>	<b>352.5</b>	<b>442.4</b>	Amounts due from fellow subsidiaries	175.9	64.4	64.4	64.4	64.4
Shareholders' Profit	78.1	162.5	253.1	352.1	442.0	Amounts due from related parties	0.2	33.8	6.9	34.0	7.4
Minority Interest	0.1	0.6	0.3	0.4	0.4	Bank balances and cash	200.3	822.9	1,041.2	1,269.6	1,510.6
<b>Shareholders' Core Net Profit</b>	<b>93.7</b>	<b>178.4</b>	<b>253.1</b>	<b>352.1</b>	<b>442.0</b>	<b>Current assets</b>	<b>473.1</b>	<b>1,033.6</b>	<b>1,236.9</b>	<b>1,482.1</b>	<b>1,812.3</b>
Dividends	-	38.5	65.4	101.2	140.9	Contract Liabilities	120.8	93.9	153.4	150.3	241.8
Special Dividends	-	-	-	-	-	Bank and Other Borrowings	1.8	100.3	100.3	100.3	100.3
EPS - basic	0.17	0.24	0.35	0.48	0.61	Trade and Other Payables	226.2	297.6	224.6	344.9	390.2
EPS-underlying	0.20	0.26	0.35	0.48	0.61	Others	27.2	34.2	61.7	39.0	71.1
DPS - basic	-	0.10	0.14	0.19	0.24	<b>Current liabilities</b>	<b>376.0</b>	<b>526.1</b>	<b>540.0</b>	<b>634.4</b>	<b>803.4</b>
BPS	0.23	0.18	1.16	1.42	1.63	Deferred tax liability	0.8	1.1	1.1	1.1	1.1
						Others	-	12.8	12.8	12.8	12.8
						<b>Non-current liabilities</b>	<b>0.8</b>	<b>13.9</b>	<b>13.9</b>	<b>13.9</b>	<b>13.9</b>
						Capital and reserves	125.7	845.1	1,033.1	1,183.1	1,343.8
						<b>Shareholders' equity</b>	<b>125.7</b>	<b>845.1</b>	<b>1,033.1</b>	<b>1,183.1</b>	<b>1,343.8</b>
						Non-controlling interests	0.6	1.2	1.2	1.2	1.2
						<b>Total equity</b>	<b>126.3</b>	<b>846.3</b>	<b>1,034.3</b>	<b>1,184.3</b>	<b>1,345.0</b>
<b>Cash Flow Statement, RMB mn</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>	<b>Key Ratios, RMB mn</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
Profit Before Tax	108.5	218.6	351.9	489.6	614.5	GP Margins	34%	37%	37%	37%	37%
<b>Operating CF before Working Cap</b>	<b>107.5</b>	<b>225.3</b>	<b>356.9</b>	<b>494.5</b>	<b>619.7</b>	Net Margins	13%	18%	18%	19%	18%
PUD	0.0	(0.6)	0.5	(0.0)	-	Core Attr Net Margins	15%	20%	18%	19%	18%
Trade & Other Receivables	2.9	(23.4)	(0.8)	(20.4)	(85.5)	ROE	66%	37%	27%	32%	35%
Trade & Other Payables	29.2	71.4	(73.1)	120.3	45.4	ROA	15%	12%	17%	21%	22%
Increase in contract liabilities	75.7	(26.8)	59.5	(3.1)	91.5	Net Debt / Total Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred Contract Costs	2.7	3.9	(12.0)	30.2	(31.3)	Net Debt / Shareholders' Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Others	5.5	35.3	(44.1)	(186.9)	(113.4)	Total Assets / Total Equity	398%	164%	154%	155%	161%
<b>Net Operating Cashflows</b>	<b>223.6</b>	<b>285.1</b>	<b>286.7</b>	<b>434.6</b>	<b>526.4</b>	Total Assets / Shareholders' Equity	400%	164%	154%	155%	161%
<b>Net Investing Cashflows</b>	<b>(249.2)</b>	<b>(342.1)</b>	<b>(3.6)</b>	<b>(3.6)</b>	<b>(3.6)</b>	Asset Turnover	115%	95%	92%	111%	123%
Bank & Other Borrowings	1.8	98.5	-	-	-						
Others	40.5	577.0	(65.4)	(202.5)	(281.7)						
<b>Net Financing Cashflows</b>	<b>42.2</b>	<b>675.5</b>	<b>(65.4)</b>	<b>(202.5)</b>	<b>(281.7)</b>						
<b>Net Cash Flows</b>	<b>16.6</b>	<b>618.5</b>	<b>217.7</b>	<b>228.4</b>	<b>241.0</b>						

Source: Company data, AMTD Equity Research

Figure 2: Aoyuan Healthy Life 2019 Results Summary

FY19 Results (RMB '000)	FY19A	FY19E	Diff	FY18A	YoY/Chg
<b>Property management services</b>	<b>646,387</b>	<b>628,405</b>	<b>3%</b>	<b>453,228</b>	<b>43%</b>
Property management services fee income	390,122	439,534	-11%	305,997	27%
Sales assistance services	172,876	123,634	40%	98,907	75%
Community value-added services	66,924	65,237	3%	48,324	38%
Others	16,465	-	N/A	-	N/A
<b>Commercial operational services</b>	<b>254,413</b>	<b>265,013</b>	<b>-4%</b>	<b>165,607</b>	<b>54%</b>
Market positioning and business tenant sourcing services	93,511	91,245	2%	63,030	48%
Commercial operation and management services	160,902	173,768	-7%	102,577	57%
<b>Total Revenue</b>	<b>900,800</b>	<b>893,418</b>	<b>1%</b>	<b>618,835</b>	<b>46%</b>
Cost of services	(563,746)	(586,247)	-4%	(410,082)	37%
<b>Gross Profit</b>	<b>337,054</b>	<b>307,171</b>	<b>10%</b>	<b>208,753</b>	<b>61%</b>
Other income	29,662	8,156	264%	6,629	347%
Impairment losses under expected credit loss model, net of reversal	(3,547)	(484)	633%	(987)	259%
Administrative expenses and other expenses	(125,975)	(115,251)	9%	(89,045)	41%
Selling and distribution expenses	(2,470)	(1,382)	79%	(1,331)	86%
Listing expenses	(15,919)	(27,000)	-41%	(15,513)	3%
Finance costs	(2,334)	-	N/A	(11)	21118%
Gain on deemed disposal of subsidiaries	4,576	-	N/A	-	N/A
Share of results of joint ventures	(2,434)	-	N/A	-	N/A
<b>Profit before tax</b>	<b>218,613</b>	<b>171,209</b>	<b>28%</b>	<b>108,495</b>	<b>101%</b>
Income tax expense	(55,503)	(47,939)	16%	(30,240)	84%
<b>Profit for the year</b>	<b>163,110</b>	<b>123,271</b>	<b>32%</b>	<b>78,255</b>	<b>108%</b>
Non-controlling interests	632	123	413%	111	469%
Attributable net profit	162,478	123,147	32%	78,144	108%
<b>Core attributable NP</b>	<b>178,397</b>	<b>150,147</b>	<b>19%</b>	<b>93,657</b>	<b>90%</b>
<b>Key Ratios</b>					
GP Margins	37%	34%		34%	
Property management services	35%	31%		32%	
Commercial operational services	45%	42%		37%	
Core Net Margins	20%	17%		15%	

Source: Company data, AMTD Equity Research

## Valuation and Risks

### We Raise Target Price by 43%, 2020E-2021E Net Profit by 20-22%

We have raised our Target Price by 43% to HK\$10.0/sh, as a result of the strong 2019 earnings reported. Our 2020E and 2021E Net Profit has also been raised by 22% and 20% respectively, to reflect the better than expected profit margins achieved.

Our price target of HK\$10.0 is based on the three-stage discounted cash flow model. This implies 2020e P/E (recurring) of 23.7x (in-line with industry average).

We use a three-stage DCF model to derive our valuation. In the first stage (the fast growth stage), we forecast explicitly five year of free cash flows to the enterprise. In the second stage (medium term), the growth rates are gradually phased down towards the perpetual growth rate. We derive the terminal multiple using the standard  $(1+g)/(wacc-g)$ . This cash flow stream is discounted using 13.0% weighted average cost of capital ("WACC") assumption.

Figure 3: What's Changed?

	New	Old	Change (%)
Target Price (HK\$/sh)	10.0	7.0	43%
2020E Net Profit (RMBm)	253	208	22%
2021E Net Profit (RMBm)	352	293	20%
2022E Net Profit (RMBm)	442	N/A	N/A
2020E EPS (RMB)	0.35	0.29	22%
2021E EPS (RMB)	0.48	0.40	20%
2022E EPS (RMB)	0.61	N/A	N/A

Source: AMTD Research, E=AMTD Research Estimates

Figure 4: DCF Valuation Breakdown

Stage 1	889
Stage 2	2,382
Stage 3	2,012
Net cash	723
Total equity value (Rmb mn)	6,006
Total equity value (HK \$mn)	6,825
Shares outstanding (mn)	683
<b>Price target (HK\$)</b>	<b>10.0</b>
Implied 2020e PE	23.7x
Implied 2021e PE	17.1x

Source: AMTD Research

### Key Risks

Key risks for the stock includes (1) the capital deployed into Healthcare and Beauty sector will create uncertainty and business risks; (2) Slower than expected project completion and delivery of property projects affecting the growth in Properties Under Management.

**Figure 5: Peers Valuation comparison**

Date	3/25/2020	Share Price (HK\$)	Mkt cap (USD mn)	FY19 P/E	FY20E P/E	FY21E P/E	FY19 P/B	FY20E P/B	FY21E P/B	FY2019 Div. yield
China Property Management										
6098 HK	Country Garden Services	29.50	10,206	47.0x	37.2x	27.1x	14.9x	11.2x	8.5x	0.6%
3319 HK	A-Living Services	34.95	5,915	38.0x	27.2x	21.2x	7.5x	6.3x	5.3x	1.4%
6049 HK	Poly PPT Dev <sup>#</sup>	64.25	4,571	66.2x	48.7x	36.3x	5.6x	5.5x	4.9x	0.4%
2869 HK	Greentown Service <sup>#</sup>	8.83	3,167	44.4x	34.9x	27.0x	9.1x	7.6x	6.4x	0.8%
2669 HK	China Overseas PPT	6.90	2,921	42.2x	33.2x	25.7x	15.0x	11.2x	8.4x	0.6%
1995.HK	Ever Sunshine	8.51	1,672	58.4x	38.5x	26.1x	10.1x	9.6x	7.7x	0.6%
1755.HK	S-Enjoy Services	13.82	1,450	40.6x	28.0x	19.4x	12.2x	9.6x	7.9x	1.3%
9909 HK	Powerlong CM	10.96	880	24.9x	23.8x	16.2x	4.3x	4.0x	3.5x	1.8%
2606 HK	Languang Justbon	36.10	833	11.6x	11.1x	8.6x	2.9x	2.4x	2.0x	3.0%
9928 HK	Times Neighbor	6.03	708	36.8x	25.1x	13.9x	6.1x	N/A	N/A	0.6%
3662 HK	Aoyuan Healthy Life	6.73	628	23.2x	17.4x	12.5x	32.9x	5.2x	4.3x	1.6%
1778 HK	Colour Life <sup>#</sup>	3.35	609	8.4x	7.4x	6.3x	1.2x	1.1x	1.0x	4.7%
2168 HK	Kaisa Prosperity <sup>#</sup>	26.35	470	25.0x	18.4x	15.1x	6.5x	5.0x	4.3x	1.0%
3316 HK	Binjiang Services <sup>#</sup>	10.40	371	21.4x	17.9x	13.9x	N/A	N/A	N/A	2.1%
1922 HK	Yincheng Life Service <sup>#</sup>	1.69	58	3.9x	6.5x	4.7x	1.9x	1.6x	1.3x	2.3%
<b>Total/Average</b>			<b>34,458</b>	<b>32.8x</b>	<b>25.0x</b>	<b>18.3x</b>	<b>9.3x</b>	<b>6.2x</b>	<b>5.0x</b>	

Source: Bloomberg Estimates, AMTD Research Estimates for Aoyuan Healthy Life

Note: As of 25<sup>th</sup> Mar, 2020;<sup>#</sup>Yet to announce FY19 results

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## IMPORTANT DISCLOSURES

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### AMTD Investment Ratings

#### Stock Rating

<b>Buy</b>	Stock with potential return of over 20% over the next 12 months
<b>Hold</b>	Stock with potential return of -20% to +20% over the next 12 months
<b>Sell</b>	Stock with potential loss of over 20% over the next 12 months

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We, Jacky Chan and Karen Huang, hereby certify that (i) all of the views expressed in this research report reflect accurately our personal views about the subject company or companies and its or their securities; and (ii) no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this research report, nor is it tied to any specific investment banking transactions performed by AMTD Global Markets Limited.

### Firm Disclosure

AMTD Global Markets Limited has an investment banking relationship with Aoyuan Healthy Life Corporation and/or its affiliate(s) within the past 12 months.

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