

# Aoyuan Healthy Life Group Company Limited

## Dual Engine To Propel Long Term Growth

We believe the acquisition of Liantianmei Corporate Management is a major step forward in the development of Aoyuan's Healthcare Business, securing the company's long term growth prospects. Following the latest acquisition, we believe Aoyuan is on track to deliver a 51% YoY 2021E net profit growth. We reiterate our Buy Rating.

### Aoyuan ahead of peers in monetizing existing community

We believe Aoyuan Healthy Life is ahead of its peers in terms of driving monetization of its customer base through Value-Added Services in the form of Healthcare Beauty Services. When many of its property management peers are still focusing on the Red Ocean Strategy in scaling up the property management business, Aoyuan Healthy Life has entered into the Blue Ocean in combining Property Management with Healthcare Services. We believe market's concerns with the execution risks are overdone, as the company now has a healthcare specialist team to implement and execute the expansion plans. We believe the potential financial rewards and business diversification outweigh such concerns. We reiterate our Buy Rating.

### New acquisition adds key competence to core Healthcare Division

On 18 Sep 2020, Aoyuan Healthy Life announced to acquire an additional 55% stake in Liantianmei Corporate Management, a Medical Aesthetic Services Group, for a *consideration of RMB374-691m* (depending on financial performance of target company), and we calculate the *implied valuation is at ~16.66x-16.75x 2020E P/E*, which we think is a fair valuation. This acquisition will empower Aoyuan Healthy Life with two Medical Aesthetics Hospital in Hangzhou, which has 626 staffs including 73 doctors, 94 nurses and 7 pharmacists. Such key personnel are important additions towards the long term growth of the company. Aoyuan Healthy Life will own a 60% stake in the target company after the acquisition.

### Dual-Engine Rapid Expansion Underway

2020 has been a major M&A year for Aoyuan Healthy Life. Property Management business has doubled in scale (in terms of GFA under management) through the acquisition of EasyLife, while Healthcare business has added two medical aesthetic hospitals through Liantianmei. We estimate that the successful completion of these two acquisitions alone will add ~RMB45m of attrib. net profit (annualized) to the company. A smooth post-acquisition integration of the management teams will help to improve the cost control and thus result in a margin expansion. Moreover, synergies from the property management business will also help the healthcare business to lower its customer acquisition costs.

### Attractive buying opportunity at 11.2x 2021E P/E

We have revised up our 2021E-2022E net profit estimates by 3.8-4.4% to factor in the latest acquisition of Liantianmei. Target Price is unchanged at HK\$11.18/sh, as we believe the acquisition valuation is fair. We believe the stock is currently trading at deeply discounted valuations of 11.2x 2021E P/E due to market's concerns regarding the execution risks in the company's healthcare business. We believe as the company delivers solid progress in the earnings growth through financial results announcements, such concerns will be dispelled and the stock will be re-rated accordingly.

Stock code: 3662.HK

Rating: Buy

| Price target (HK\$)               | 11.18 |
|-----------------------------------|-------|
| Current price (HK\$, 18 Sep 2020) | 6.56  |
| Upside/downside %                 | 70%   |
| Market cap (HK\$ m)               | 4,764 |
| Market cap (US\$ m)               | 615   |
| 3M Avg daily turnover (US\$ m)    | 7.19  |

Source: Bloomberg, AMTD Research

### Key forecasts

| (RMB m)         | 2019     | 2020e    | 2021e    | 2022e    |
|-----------------|----------|----------|----------|----------|
| Revenue         | 901      | 1,505    | 2,867    | 3,435    |
| yoy %           | 45.6%    | 67.1%    | 90.5%    | 19.8%    |
| Gross Profit    | 337      | 452      | 922      | 1,094    |
| yoy %           | 61.5%    | 34.0%    | 104.3%   | 18.6%    |
| Core Net Profit | 178      | 254      | 383      | 476      |
| yoy %           | 108.4%   | 42.2%    | 50.8%    | 24.5%    |
| Gross margin    | 37.4%    | 30.0%    | 32.2%    | 31.8%    |
| Net gearing     | Net cash | Net cash | Net cash | Net cash |
| EPS             | 0.26     | 0.35     | 0.53     | 0.66     |
| DPS             | 0.10     | 0.14     | 0.21     | 0.26     |
| BPS             | 1.24     | 1.43     | 1.70     | 1.97     |

Source: Company data, AMTD Research

Notes: Core NP excludes listing expenses

### Valuation

|            | 2019  | 2020e | 2021e | 2022e |
|------------|-------|-------|-------|-------|
| P/E        | 22.6  | 16.9  | 11.2  | 9.0   |
| P/BV       | 4.8   | 4.1   | 3.5   | 3.0   |
| Div. yield | 1.6%  | 2.4%  | 3.6%  | 4.4%  |
| ROE        | 33.5% | 26.9% | 33.6% | 35.7% |
| ROA        | 17.2% | 16.9% | 20.3% | 21.8% |

Source: Bloomberg, AMTD Research

### Share price performance



Source: Bloomberg

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## Financial Summary

**Figure 1: Financial Summary and Key Ratios**

| PnL, RMB mn                             |                |                |                |                |                | Balance Sheet, RMB mn                |              |                |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|--------------------------------------|--------------|----------------|----------------|----------------|----------------|
|   | 2018           | 2019           | 2020e          | 2021e          | 2022e          |                                      | 2018         | 2019           | 2020e          | 2021e          | 2022e          |
| Revenue                                 | 618.8          | 900.8          | 1,505.0        | 2,867.4        | 3,434.8        | Property, plant and equipment        | 12.7         | 20.2           | 726.3          | 726.3          | 726.3          |
| COGS                                    | (410.1)        | (563.7)        | (1,053.4)      | (1,945.0)      | (2,340.8)      | 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>451.6</b>   | <b>922.4</b>   | <b>1,094.0</b> | Goodwill                             | 3.5          | 3.5            | 3.5            | 3.5            | 3.5            |
| Selling and marketing expenses          | (1.3)          | (2.5)          | (2.5)          | (181.0)        | (175.0)        | Deferred tax assets                  | 7.4          | 2.6            | 2.6            | 2.6            | 2.6            |
| General and administrative expenses     | (89.0)         | (126.0)        | (105.3)        | (200.7)        | (240.4)        | Deposits paid for acquisition of PPE | 1.1          | -              | -              | -              | -              |
| Impairment losses on trade receivables  | (1.0)          | (3.5)          | (0.5)          | (0.7)          | (1.8)          | 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 losses | 6.6            | 31.8           | 15.1           | 19.3           | 19.3           | <b>Non-current assets</b>            | <b>30.0</b>  | <b>352.2</b>   | <b>1,057.3</b> | <b>1,056.7</b> | <b>1,056.1</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>358.4</b>   | <b>559.2</b>   | <b>696.0</b>   | Trade and other receivables          | 87.0         | 106.9          | 130.9          | 240.4          | 213.7          |
| Income tax expense                      | (30.2)         | (55.5)         | (100.4)        | (156.6)        | (194.9)        | Deferred contract costs              | 9.5          | 5.0            | 19.2           | 26.8           | 28.3           |
| <b>Net profit</b>                       | <b>78.3</b>    | <b>163.1</b>   | <b>258.1</b>   | <b>402.7</b>   | <b>501.1</b>   | Amounts due from fellow subsidiaries | 175.9        | 64.4           | 64.4           | 64.4           | 64.4           |
| Shareholders' Profit                    | 78.1           | 162.5          | 253.7          | 382.5          | 476.1          | Amounts due from related parties     | 0.2          | 33.8           | 7.0            | 34.8           | 7.6            |
| Minority Interest                       | 0.1            | 0.6            | 4.4            | 20.1           | 25.1           | Bank balances and cash               | 200.3        | 822.9          | 329.5          | 738.4          | 835.4          |
| <b>Shareholders' Core Net Profit</b>    | <b>93.7</b>    | <b>178.4</b>   | <b>253.7</b>   | <b>382.5</b>   | <b>476.1</b>   | <b>Current assets</b>                | <b>473.1</b> | <b>1,033.6</b> | <b>551.2</b>   | <b>1,105.1</b> | <b>1,149.6</b> |
| Dividends                               | -              | 38.5           | 65.4           | 101.5          | 153.0          | Contract Liabilities                 | 120.8        | 93.9           | 86.7           | 200.1          | 109.1          |
| Special Dividends                       | -              | -              | -              | -              | -              | Bank and Other Borrowings            | 1.8          | 100.3          | 100.3          | 100.3          | 100.3          |
| EPS - basic                             | 0.17           | 0.24           | 0.35           | 0.53           | 0.66           | Trade and Other Payables             | 226.2        | 297.6          | 304.4          | 555.9          | 474.6          |
| EPS-underlying                          | 0.20           | 0.26           | 0.35           | 0.53           | 0.66           | Others                               | 27.2         | 34.2           | 64.3           | 52.9           | 74.0           |
| DPS - basic                             | -              | 0.10           | 0.14           | 0.21           | 0.26           | <b>Current liabilities</b>           | <b>376.0</b> | <b>526.1</b>   | <b>555.6</b>   | <b>909.1</b>   | <b>757.9</b>   |
| BPS                                     | 0.27           | 1.24           | 1.43           | 1.70           | 1.97           | 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          | 1,037.8        | 1,237.5        | 1,432.6        |
|   |                |                |                |                |                | <b>Shareholders' equity</b>          | <b>125.7</b> | <b>845.1</b>   | <b>1,037.8</b> | <b>1,237.5</b> | <b>1,432.6</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>1,039.0</b> | <b>1,238.7</b> | <b>1,433.8</b> |
| Cash Flow Statement, RMB mn             |                |                |                |                |                | Key Ratios                           |              |                |                |                |                |
|   | 2018           | 2019           | 2020e          | 2021e          | 2022e          |                                      | 2018         | 2019           | 2020e          | 2021e          | 2022e          |
| Profit Before Tax                       | 108.5          | 218.6          | 358.4          | 559.2          | 696.0          | GP Margins                           | 34%          | 37%            | 30%            | 32%            | 32%            |
| <b>Operating CF before Working Cap</b>  | <b>107.5</b>   | <b>225.3</b>   | <b>363.4</b>   | <b>705.5</b>   | <b>843.3</b>   | Net Margins                          | 13%          | 18%            | 17%            | 13%            | 14%            |
| PUD                                     | 0.0            | (0.6)          | 0.5            | (0.0)          | -              | Core Attr Net Margins                | 15%          | 20%            | 17%            | 13%            | 14%            |
| Trade & Other Receivables               | 2.9            | (23.4)         | (24.4)         | (110.3)        | 24.9           | ROE                                  | 66%          | 33%            | 27%            | 34%            | 36%            |
| Trade & Other Payables                  | 29.2           | 71.4           | 6.7            | 251.5          | (81.3)         | ROA                                  | 15%          | 17%            | 17%            | 20%            | 22%            |
| Increase in contract liabilities        | 75.7           | (26.8)         | (7.3)          | 113.4          | (91.0)         | Net Debt / Total Equity              | Net cash     | Net cash       | Net cash       | Net cash       | Net cash       |
| Deferred Contract Costs                 | 2.7            | 3.9            | (14.2)         | (7.7)          | (1.5)          | Net Debt / Shareholders' Equity      | Net cash     | Net cash       | Net cash       | Net cash       | Net cash       |
| Others                                  | 5.5            | 35.3           | (43.5)         | (195.8)        | (146.5)        | Total Assets / Total Equity          | 398%         | 164%           | 155%           | 175%           | 154%           |
| <b>Net Operating Cashflows</b>          | <b>223.6</b>   | <b>285.1</b>   | <b>281.1</b>   | <b>756.7</b>   | <b>547.9</b>   | Total Assets / Shareholders' Equity  | 400%         | 164%           | 155%           | 175%           | 154%           |
| <b>Net Investing Cashflows</b>          | <b>(249.2)</b> | <b>(342.1)</b> | <b>(709.7)</b> | <b>(144.9)</b> | <b>(144.9)</b> | Asset Turnover                       | 115%         | 95%            | 101%           | 152%           | 157%           |
| Bank & Other Borrowings                 | 1.8            | 98.5           | -              | -              | -              |                                      |              |                |                |                |                |
| Others                                  | 40.5           | 577.0          | (65.4)         | (202.9)        | (306.0)        |                                      |              |                |                |                |                |
| <b>Net Financing Cashflows</b>          | <b>42.2</b>    | <b>675.5</b>   | <b>(65.4)</b>  | <b>(202.9)</b> | <b>(306.0)</b> |                                      |              |                |                |                |                |
| <b>Net Cash Flows</b>                   | <b>16.6</b>    | <b>618.5</b>   | <b>(494.0)</b> | <b>408.9</b>   | <b>97.0</b>    |                                      |              |                |                |                |                |

Source: Company Data, AMTD Research Estimates

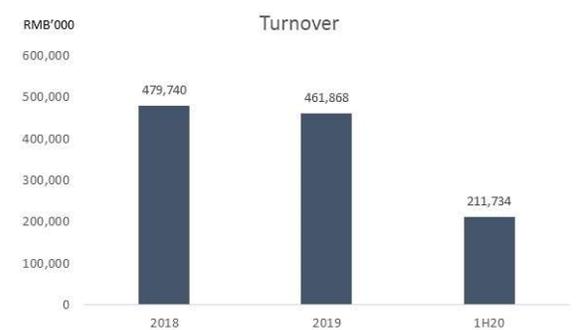
## Zhejiang Liantianmei Acquisition

**Figure 2: Transaction 20E P/E has been secured at around 16.66x and the consideration shall be capped at RMB691mn**

| Transaction Details |  |
|---------------------|--|
| Target Company      | Zhejiang Liantianmei Corporate Management Company Limited (浙江連天美企業管理有限公司)  |
| Target Interest     | 55%  |
| Purchaser           | Guangdong Xinyuerong Industrial Investment Company Limited (廣東欣容產業投資有限公司), a wholly-owned subsidiary of 3662.HK  |
| Vendor              | Guangzhou Shengzhuang Medical Beauty Investment Company Limited (廣州盛妝醫療美容投資有限公司)   |
| Consideration       | the first tranche RMB160mn   |
|                     | the second tranche RMB214.23mn   |
|                     | the third tranche $A = B \times 16.66 \times 55\% - \text{RMB}374.23\text{mn}$<br>A= the third tranche consideration<br>B= consolidated 2020 net profit<br>B multiplied by 16.66 shall not exceed RMB1.25bn in any event   |
|                     | Other Conditions<br>1) If $A \leq 0$ according to the formula, A is regarded as 0<br>2) If $A > 0$ and 2020 net profit $\geq$ RMB50mn, the Purchaser shall pay an additional amount of RMB3.5mn to the Vendor on or before 31 March 2021<br>3) The total Consideration shall be capped at RMB691mn |
| Consideration Range | RMB374.23mn~RMB691mn   |
| Implied 2020E P/E   | If 2020 net profit is RMB75mn, the consideration would be 691mn, implying 2020E P/E 16.75x   |

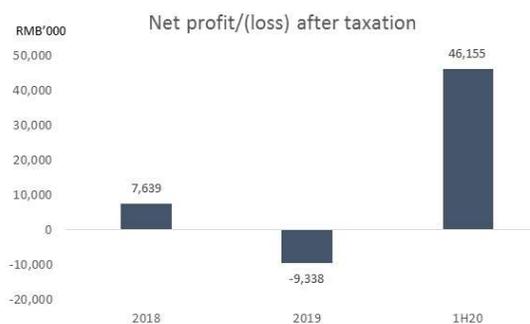
Source: Company Data, AMTD Research

**Figure 3: Zhejiang Liantianmei 2018-1H20 Revenue**



Source: Company Data, AMTD Research

**Figure 4: Zhejiang Liantianmei 2018-1H20 Net Profit**



Source: Company Data, AMTD Research

Notes: The target company made compliance adjustment and hospital expansion in previous years, resulting in lower profits in 2018 and 2019

**Figure 5: Target Company is a leading integrated medical aesthetic services group**

| Target Company                            |  |
|---|--|
| <b>Name</b>                               | Zhejiang Liantianmei Corporate Management Company Limited (浙江連天美企業管理有限公司)  |
| <b>Position</b>                           | A leading integrated medical aesthetic services group  |
| <b>Business</b>                           | Aesthetic surgery services, minimally-invasive aesthetic services and aesthetic dermatology services   |
| <b>Hospitals</b>                          | Two private medical aesthetic hospitals<br>1) Hangzhou Huashan Luxeme Medical Cosmetology Hospital (杭州華山連天美醫療美容醫院)<br>2) Hangzhou Victoria Medical Cosmetology Hospital (杭州維多利亞醫療美容醫院) |
| <b>Operating Area</b>                     | ~30,000 sq.m.  |
| <b>Registered Patents</b>                 | 24   |
| <b>Customers</b>                          | > 0.3 million  |
| <b>Pre-deal Relationship with 3662.HK</b> | Aoyuan Healthy Life indirectly holds 5% of equity interest in the Target Company   |

Source: Company Data, AMTD Research

## Valuation

Figure 6: What's Changed?

|                        | New   | Old   | Change |
|------------------------|-------|-------|--------|
| Target Price(HK\$/sh)  | 11.18 | 11.18 | 0%     |
| 2020E Net Profit(RMBm) | 254   | 272   | -7%    |
| 2021E Net Profit(RMBm) | 383   | 366   | 4%     |
| 2022E Net Profit(RMBm) | 476   | 459   | 4%     |
| 2020E EPS(RMB)         | 0.35  | 0.37  | -7%    |
| 2021E EPS(RMB)         | 0.53  | 0.50  | 4%     |
| 2022E EPS(RMB)         | 0.66  | 0.63  | 4%     |

Source: AMTD Research Estimates

Figure 7: China Property Management Companies: Peers Valuation comparison

| Date                             | 18/9/2020               | Share Price | Mkt cap       | P/E          |              |              | P/B         |             |             | Div. yield  |
|----------------------------------|-------------------------|-------------|---------------|--------------|--------------|--------------|-------------|-------------|-------------|-------------|
| Ticker                           | Name(EN)                | (HK\$)      | (USD mn)      | FY19         | FY20E        | FY21E        | FY19        | FY20E       | FY21E       | FY19        |
| <b>China Property Management</b> |                         |             |               |              |              |              |             |             |             |             |
| 6098 HK                          | Country Garden Services | 51.70       | 18,408        | 74.2x        | 51.8x        | 36.7x        | 23.5x       | 16.9x       | 12.4x       | 0.3%        |
| 3319 HK                          | A-Living Services       | 40.20       | 6,916         | 39.3x        | 27.8x        | 21.1x        | 7.8x        | 6.5x        | 5.6x        | 1.3%        |
| 6049 HK                          | Poly PPT Dev            | 68.75       | 4,909         | 50.8x        | 47.3x        | 34.9x        | 6.5x        | 5.9x        | 5.3x        | 0.5%        |
| 2869 HK                          | Greentown Service       | 9.39        | 3,898         | 49.9x        | 38.8x        | 30.1x        | 8.6x        | 5.4x        | 4.8x        | 0.9%        |
| 1995 HK                          | Eversunshine            | 16.16       | 3,483         | 99.8x        | 61.1x        | 39.6x        | 19.5x       | 11.7x       | 9.6x        | 0.3%        |
| 2669 HK                          | China Overseas PH       | 6.60        | 2,799         | 41.2x        | 32.8x        | 25.8x        | 14.4x       | 10.9x       | 8.3x        | 0.8%        |
| 1755 HK                          | S-Enjoy Services        | 22.70       | 2,399         | 60.1x        | 38.7x        | 26.0x        | 18.1x       | 13.4x       | 10.0x       | 0.9%        |
| 9909 HK                          | Powerlong CM            | 29.85       | 2,394         | 61.0x        | 56.7x        | 38.9x        | 10.2x       | 9.0x        | 7.9x        | 0.0%        |
| 9983 HK                          | CC New Life*            | 9.10        | 1,462         | NA           | 22.9x        | 20.9x        | NA          | 3.8x        | 3.4x        | NA          |
| 9928 HK                          | Times Neighbor          | 10.34       | 1,315         | 56.8x        | 38.3x        | 22.3x        | 9.4x        | 6.2x        | 5.2x        | 0.4%        |
| 2606 HK                          | Languang Justbon        | 46.10       | 1,059         | 13.4x        | 12.5x        | 9.4x         | 3.4x        | 2.8x        | 2.3x        | 3.0%        |
| 6958 HK                          | Zhenro Services         | 5.54        | 742           | NA           | 24.3x        | 17.2x        | NA          | NA          | NA          | 0.0%        |
| 1778 HK                          | Colour Life             | 3.93        | 738           | 9.7x         | 9.2x         | 8.5x         | 1.3x        | 1.2x        | 1.0x        | 2.6%        |
| 3316 HK                          | Binjiang Services       | 17.96       | 641           | 33.2x        | 23.4x        | 19.2x        | 6.2x        | NA          | NA          | 1.4%        |
| 3662 HK                          | Aoyuan Healthy Life*    | 6.56        | 615           | 22.6x        | 16.9x        | 11.2x        | 4.8x        | 4.1x        | 3.5x        | 1.6%        |
| 2168 HK                          | Kaisa Prosperity        | 26.35       | 524           | 20.0x        | 15.6x        | 11.3x        | 5.0x        | 3.0x        | 2.6x        | 2.0%        |
| 1971 HK                          | Redsun Services         | 5.98        | 320           | NA           | 28.8x        | 15.0x        | NA          | 3.5x        | 3.0x        | 0.0%        |
| <b>Total/Average</b>             |                         |             | <b>52,621</b> | <b>45.1x</b> | <b>32.2x</b> | <b>22.8x</b> | <b>9.9x</b> | <b>7.0x</b> | <b>5.7x</b> | <b>1.0%</b> |

Source: Bloomberg Estimates, \*AMTD Research Estimates for AMTD Coverage Stocks

Note: As of 18th Sep 2020

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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       |

### Analyst Certification

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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## GENERAL DISCLOSURES

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