

A-Living Services (3319 HK)

One of the fastest growing players in the market

- ❖ **Investment opportunity in a sunrise industry.** In recent years, following the rapid urbanization and continuous growth in per capita disposable income, property management market starts revealing its economic value. We expect property management industry continues to grow in tandem with rising level of urbanization and demanding quality of uptown living. We are positive on the outlook of property management industry.
- ❖ **A promising new player in the market.** A-Living is a reputable property management service provider in China focusing on mid- to high-end properties. After a series of reorganization and corporate restructuring in 2017, the Company's H-shares were successfully listed on HKEX on 9 Feb 2018, with IPO price of HK\$12.30. As at 31 Dec 2017, A-Living provided property management services in 69 cities in China with managed GFA of 78.3mn sq.m.
- ❖ **Supported by Agile and Greenland.** In Jun 2017, A-Living acquired Greenland Property Services from Greenland Holdings (600606 CH). In Aug 2017, Greenland Holdings was introduced as a strategic shareholder. Greenland currently holds 15% interest of A-Living, and A-Living now operates under the two renowned brands, "Agile Property Management" and "Greenland Property Services." Continuous support from Agile and Greenland is the core investment theory of A-Living. Both Agile and Greenland have agreed to deliver substantial GFA amount to A-Living each year. Furthermore, Agile and Greenland are also tied with A-Living in its value-added services to non-property owner, property agency business in particular. We think property management companies whose shareholders are large developers will have the upper hand in the competition of scale.
- ❖ **Rapid expansion.** According to the management, first task after IPO is to expand the scale through (1) organic growth and (2) M&A. Other than support from shareholders, A-Living also targets on 3rd parties projects. In 2017, A-Living founded a market development team with 200 elites focusing on obtaining 3rd parties projects. Net proceeds from IPO amounted to approximately HK\$3,944.6mn, of which 65% will be spent in M&A and strategic investment. On 9 Apr 2018, A-Living announced to acquire 51% equity interest of Nanjing Zizhu Property Management at a total consideration of Rmb205mn.
- ❖ **Initiate with BUY.** We estimate EPS of A-Living to be Rmb0.51, Rmb0.74 and Rmb1.02 in FY2018-2020. Current share price is trading at 19.3x 18E PER and 12.3x 19E PER. With 25.0x 18E PER, our Target Price is HK\$15.74. Upside potential is 32.0%. Initiate with **BUY**.
- ❖ **Investment risks:** (1) Uncertainties in M&A (2) weaker than expected support from shareholders (3) weaker than expected growth of value-added services.

Earnings summary

(YE Dec 31)	FY16A	FY17A	FY18E	FY19E	FY20E
Turnover (Rmb\$ mn)	1,245	1,761	4,000	5,821	7,918
Net Income (Rmb\$ mn)	161	290	677	986	1,365
EPS (Rmb\$)	0.22	0.35	0.51	0.74	1.02
EPS CHG (%)	N.A	59.1	45.1	45.6	38.5
PE (x)	43.9	27.6	19.0	13.1	9.4
PB (x)	26.2	18.1	3.1	2.7	2.3
Yield (%)	n.a.	n.a.	2.1	3.4	4.8
ROE (%)	57.5	19.7	13.3	17.6	21.4
Net gearing (%)	88.6	net cash	net cash	net cash	net cash

Source: Company, CMBIS

BUY (Initiation)

Target Price	HK\$15.74
Up/downside	+32.0%
Current price	HK\$11.92

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China property management Sector

Mkt. Cap. (HK\$mnn)	15,893
Avg. 3mths t/o (HK\$mnn)	36.5
52W High/Low (HK\$)	12.68/8.98
Total Issued Shares (mn)	1,333.3

Source: Bloomberg

Shareholding Structure

Agile	54%
Greenland Holdings	15%
Free float	25%

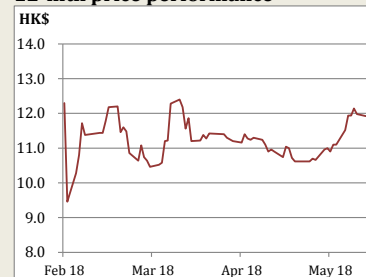
Source: Bloomberg

Share performance

	Absolute	Relative
1-mth	9.9%	7.7%
3-mth	5.3%	5.5%
6-mth	n.a	n.a

Source: Bloomberg

12-mth price performance



Source: Bloomberg

Auditor: PwC

Web-site: www.agileliving.com.cn

Table of content

Company background	3
Business	6
Investment thesis.....	6
Financial Analysis.....	14
Valuation.....	20
Financial statements.....	21

Company background

A-Living is a reputable property management service provider in China focusing on mid- to high-end properties. As at 31 Dec 2017, A-Living provided property management services in 69 cities in China with a total GFA under management of 78.3mn sq.m. and served more than 1 million property owners and residents.

The history of the Company dated back to 1993, when Agile Group (3380 HK, BUY), the Controlling Shareholder, started providing management services for the properties developed by itself.

In Jun 2017, A-Living acquired Greenland Property Services from Greenland Holdings. In Aug 2017, Greenland Holdings was introduced as a strategic shareholder through a capital injection of Rmb1bn. Greenland currently holds 15% interest of A-Living. The Company now operates under the two renowned brands, “雅居乐物业 (Agile Property Management)” and “绿地物业 (Greenland Property Services).”

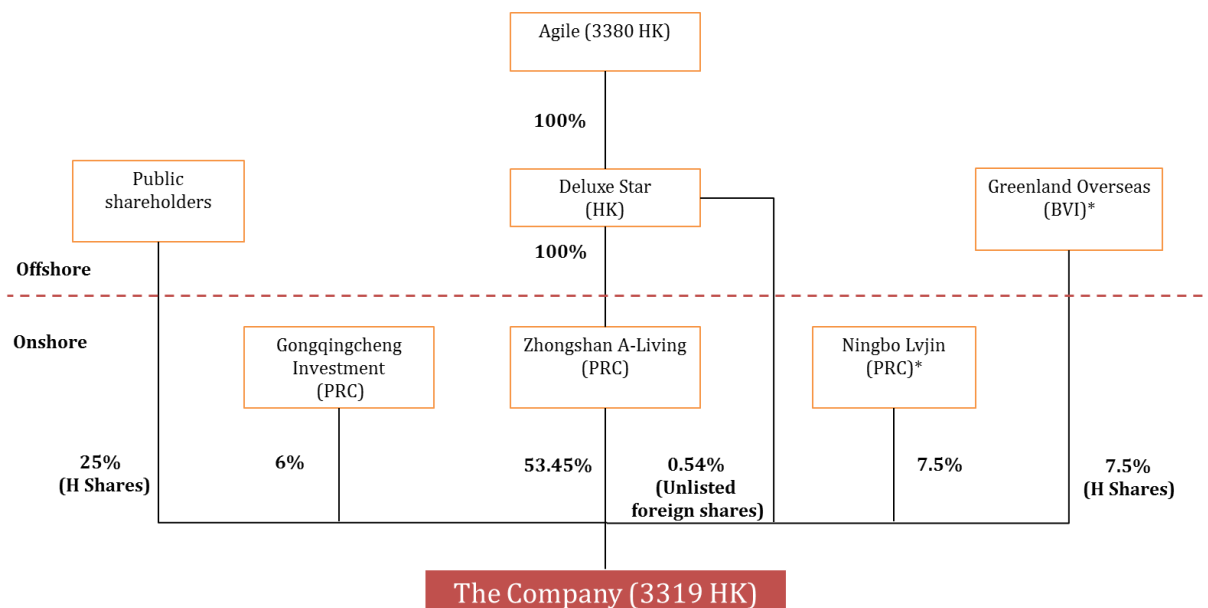
On 9 Feb 2018, the Company successfully spun off from Agile Group and its H-shares were successfully listed on HKEX with IPO price of HK\$12.30. 333.3mn H shares were issued during the Global Offering, accounting for 25% of the total share capital. Net proceeds from the Listing amounted to approximately HK\$3,945mn (equivalent to Rmb3,188mn).

Figure 1: Milestones of A-Living

Year	Event
1997	A-Living was established in Zhongshan and had started to provide property management services to the real estate projects developed by Agile Group in Zhongshan in 1993
2000	The Company expanded property management services to properties in Guangzhou
2006	The Company expanded property management services to properties in Xi'an, Chengdu and Nanjing and started to expand business across China
2008	The Company started to provide property management services to Hainan Clear Water Bay project (海南清水湾项目) which is the first vacation property project under our management
2014	The Company started to provide property management services to vacation properties developed by Agile Group in Yunnan province
2017	The Company acquired Greenland Property Services from, and established a strategic alliance with, Greenland Holdings The Company commenced to provide home inspection services and property agency services
2018	The Company's H-shares were listed on HKEX with IPO price of HK\$12.30. 333.3mn H shares were issued during the Global Offering, accounting for 25% of the share capital

Source: Company

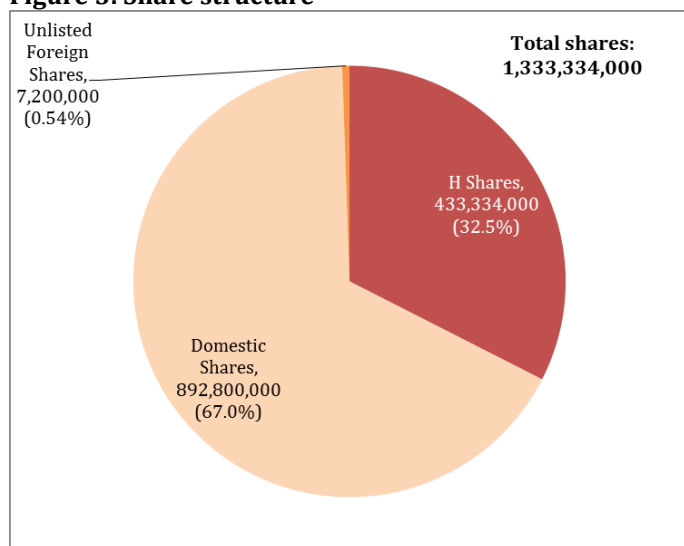
Figure 2: Shareholders structure



Source: Company

Note*: Greenland Holdings is the indirect holding company of Ningbo Lvjin (PRC) and Greenland Overseas (BVI).

Figure 3: Share structure



Source: Company

Substantial shareholders

Agile Group (3383 HK)

Agile Group (3383 HK), the controlling shareholder, is an integrated conglomerate in China focusing on mid- to high-end property development. Agile Group is also engaged in environmental protection, construction and hotel operations

Greenland Holdings (600606 CH)

Greenland Holdings is the indirect holding company of Ningbo Lvjin and Greenland Overseas. Greenland Holdings (600606 CH) is a Chinese SOE real estate developer listed on Shanghai Stock Exchange. Greenland Holdings has continuously been ranked among the World Top 500 Enterprises since 2012.

Gongqingcheng Investment

Gongqingcheng Investment entered into a capital increase agreement during pre-IPO investment. Gongqingcheng Investment was established under the laws of the PRC with Gongqingcheng Yagao Investment Management Co., Ltd. as its general partner and Mr. Liu Deming (刘德明, Executive Director, Chief Executive Officer), Mr. Feng Xin (冯欣, Executive Director, Vice President) and Mr. Li Dalong (李大龙, Chief Financial Officer and Joint Company Secretary) as its limited partners. Gongqingcheng Yagao is a limited liability company which is owned by Mr. Pan Zhiyong (潘智勇), a member of the senior management of Agile Holdings.

Business

Business overview

A-Living is a reputable property management service provider focusing on mid- to high-end properties. The Company currently operates under the two renowned brands, “雅居乐物业 (Agile Property Management)” and “绿地物业 (Greenland Property Services).” As at 31 Dec 2017, the Group provided property management services in 69 cities in China with a total GFA under management of 78.3mn sq.m. and served more than 1 million property owners and residents.

A-Living operates in 3 business lines, namely, (1) property management services, (2) value-added services to non-property owners and (3) value-added services to property owners.

(1) Property management services

Property management services include security, cleaning, greening and gardening, repairs and maintenance services, with a focus on mid- to high-end residential properties and non-residential properties. The Company also provides consultancy services to local property management companies. Under consultancy service arrangements, A-Living provides on-site consultation and advice to these local property management companies to help them improve their services to their clients.

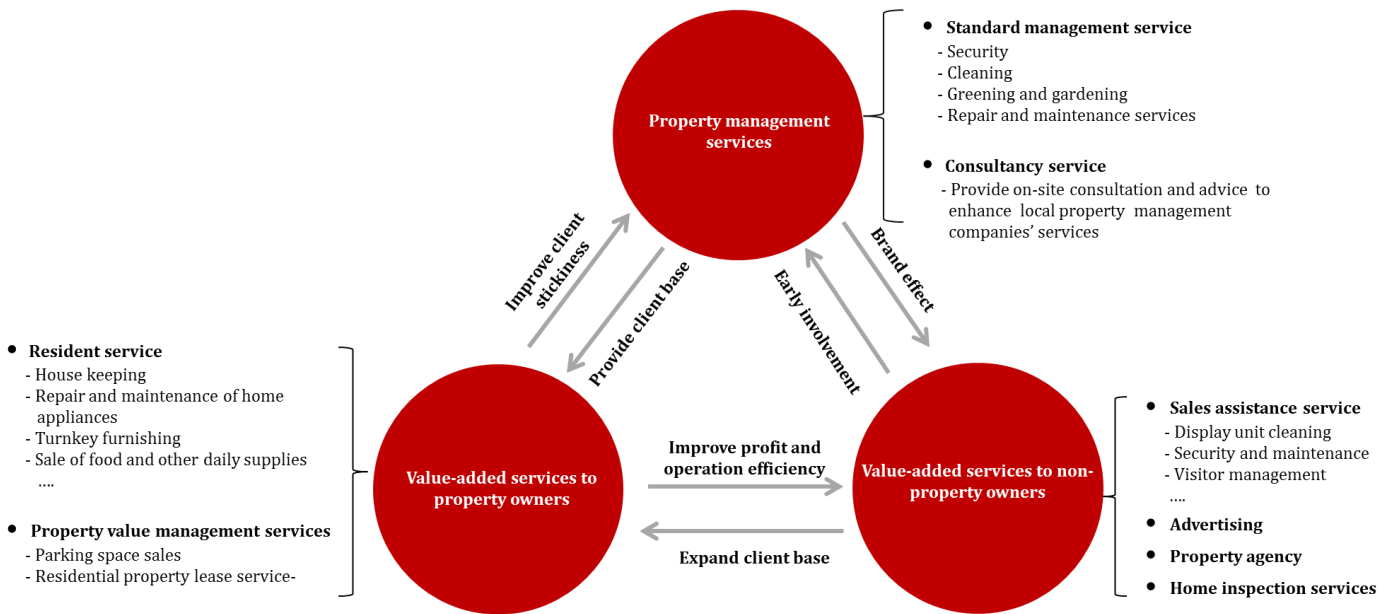
(2) Value-added services to non-property owners

A-Living offers non-property owners (primarily property developers) sales assistance services which assist property developers in showcasing and marketing their properties, including display unit cleaning, security and maintenance, visitor management as well as preliminary planning and design consultancy services for property development projects. The Company also provides advertising, property agency and home inspection services to non-property owners. It is worth noting that the Company's property agency business has been growing fast in 2017 because of the collaboration with its shareholder in property sales.

(3) Value-added services to property owners

The Company divides value-added services into two categories: (3.1) resident services and (3.2) property value management services. (3.1) Resident services include housekeeping, repair and maintenance of home appliances, turnkey furnishing, sale of food and other daily supplies, smart home system, asset custody, travel, group purchase and ticketing services. (3.2) Property value management services include parking space sales and residential property lease services.

Figure 4: Business diagram

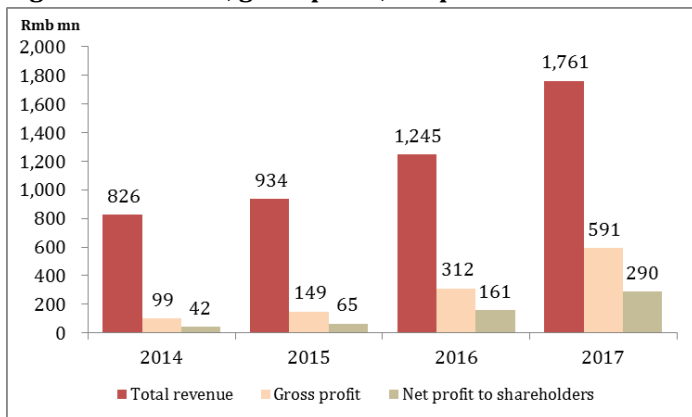


Source: Company, CMBIS

In 2017, A-Living recoded a revenue of Rmb1,761mn and net profit of Rmb290mn. It is not surprised that property management is the core business of A-Living, accounting for the 68% of revenue and 55% of gross profit, but contribution from value-added services has gaining its weight in recent years.

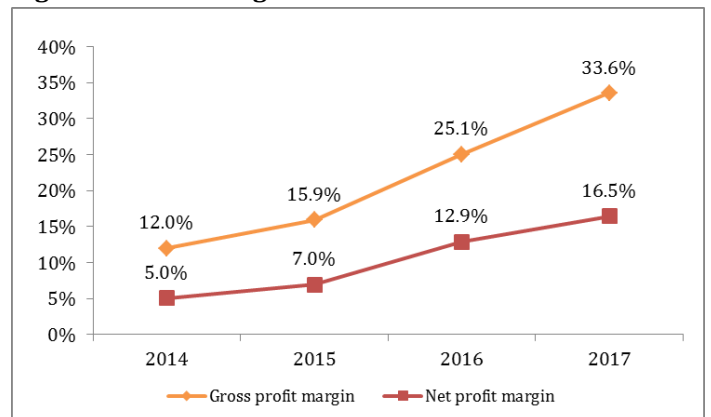
Value-added services enjoy much higher profit margin than property management services. As value-added services accelerated, overall gross profit margin and net margin improved significantly in 2016 and 2017. Driven by the improved profit margin and increased business scale, CAGR of net profit is 91% during 2014-2017.

Figure 5: Revenue, gross profit, net profit



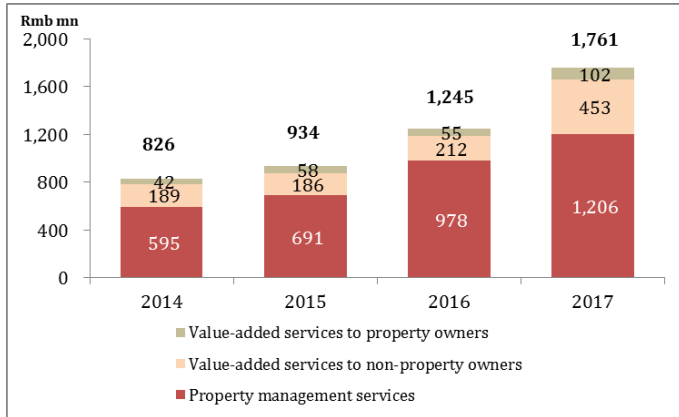
Source: Company

Figure 6: Profit margin



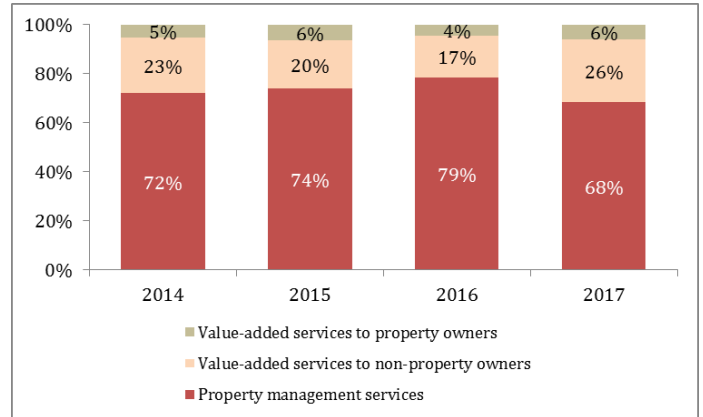
Source: Company

Figure 7: Revenue breakdown



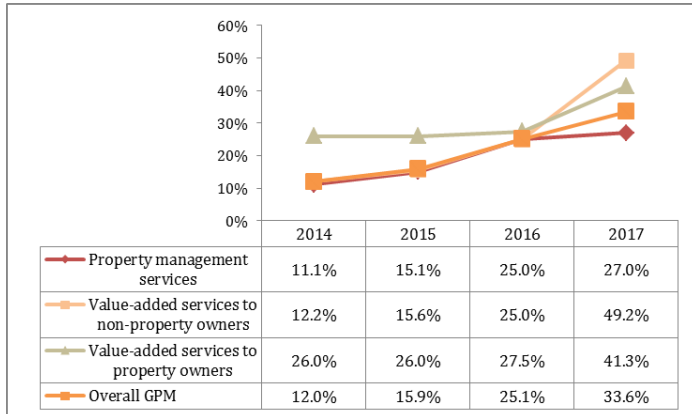
Source: Company

Figure 8: Revenue breakdown



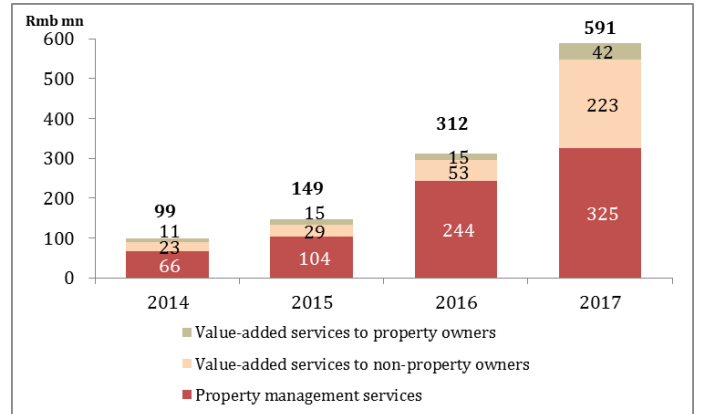
Source: Company

Figure 9: Gross profit margin by segment



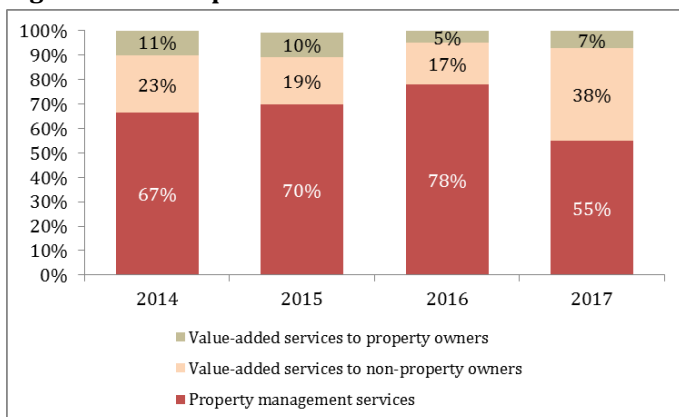
Source: Company

Figure 10: Gross profit breakdown



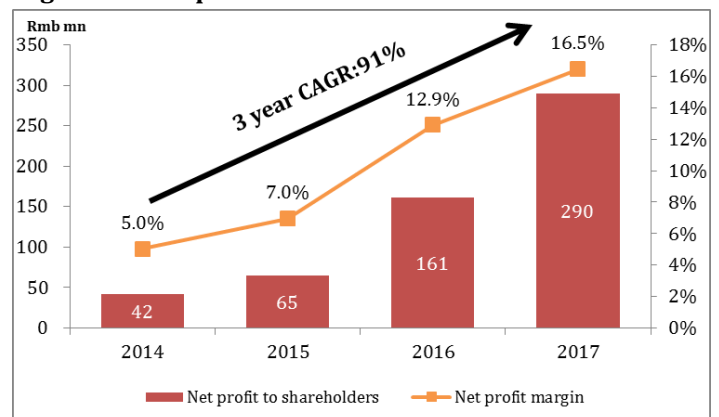
Source: Company

Figure 11: Gross profit breakdown



Source: Company

Figure 12: Net profit



Source: Company

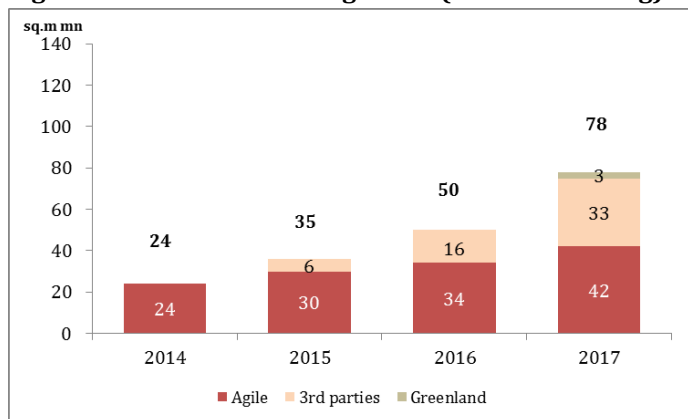
Property management services

Project source

A-Living has contracted to manage substantially all of the properties developed by Agile Group since 1993. In Jul 2015, The Company began to expand the business to manage properties developed by independent 3rd parties property developers. In Jun 2017, A-Living acquired Greenland Property Services from Greenland Holdings and introduced Greenland Holdings as its strategic shareholder. As a result, the Company's contracted GFA mainly comes from 3 sources: Agile, Greenland, and independent 3rd parties (mainly mid-to-small sized developers).

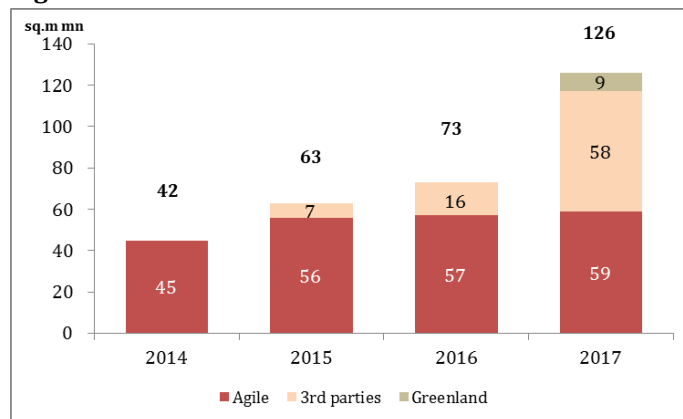
With regard to contracted area, the Company defined it as construction areas delivered and undelivered in accordance with the property service contract entered into with developers, which will become the area under the property management services in the future and the base of the revenue expansion. As at 31 Dec 2017, the contracted GFA amounted to 126.1mn sq.m, representing an increase of 71.8% from 73.4mn sq.m. in 2016. The significant increase in the contracted GFA was mainly attributable to the increase in contracted GFA of 41.7mn sq.m from independent 3rd parties property developers in 2017, of which 22.5mn sq.m under property management services and 19.2mn sq.m. under consultancy services.

Figure 13: GFA under management (revenue bearing)



Source: Company

Figure 14: Contracted GFA

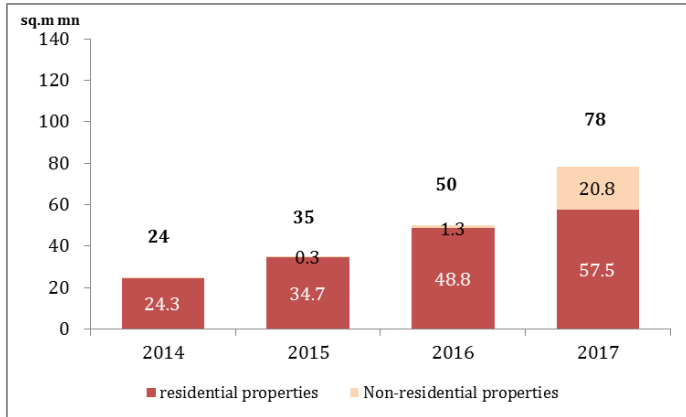


Source: Company

Project types and fee

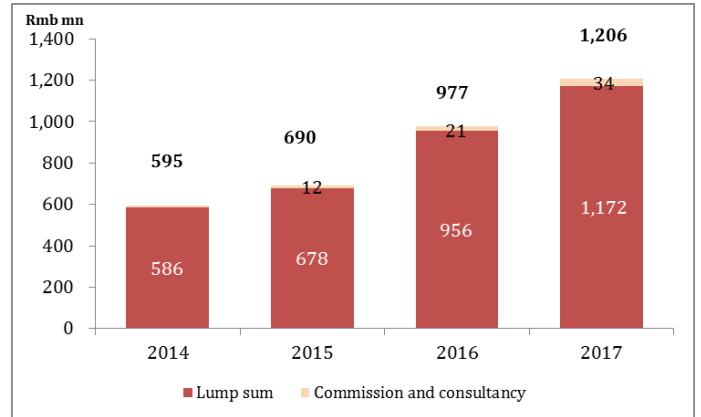
The proportion of non-residential properties in the area under management of the Group has increased significantly from 2.5% in 2016 to 26.6% in 2017. This mainly benefits from the leading position of Greenland in the non-residential properties including super high-rise and business office. Income for property management business is mainly collected on lump sum basis, accounting for 97.2% of the property management service income.

Figure 15: GFA in terms of project type



Source: Company

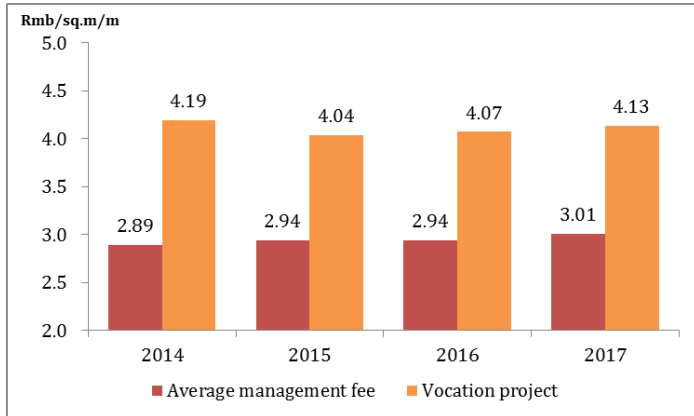
Figure 16: Revenue in terms of payment types



Source: Company

In 2017, the average property management service fee for residential properties was Rmb3.01/sq.m/month; of which the average management fee for vacation properties was Rmb4.13/sq.m/month, higher than the industrial average.

Figure 17: Management fee



Source: Company

Figure 18: Figure 15: Geographic presence



Source: Company

Value-added services to non- property owners

A-Living provides a comprehensive range of property related business solutions to non-property owners, primarily property developers. These services mainly include: (1) sales assistance services; and (2) other services.

(1) Sales assistance

A-Living may be appointed by property developers at an early stage of property development to provide sales assistance services. The Company assists property developers in showcasing and marketing their properties, including display unit cleaning, security and maintenance, visitor management as well as preliminary planning and design consultancy services for property development projects. The revenue recognized from sales assistance is based on the fee charged, which is either based on actual cost or is at a fixed lump sum amount.

(2) Other services

Other services can be divided into 3 sub-segments:

(2.1) Advertising

Started in Jun 2016, this business primarily provides advertising services to the properties under A-Living's management. The advertising information focuses on services and products closely tied to residents' daily life, such as consumer goods, household supplies and financial products.

(2.2) Property agency

The business started in Jul 2016. A-Living offers agency services to developers for leasing and sale, primarily for properties under the Company's management. On successful transactions, the Company charges on a commission basis.

(2.3) Home inspection

The business started in Apr 2017. A-Living provides home inspection services to property developers after construction is complete and the property has been delivered to buyers.

In 2014, 2015, 2016 and 2017, the revenue derived from sales assistance services represented 100.0%, 100.0%, 99.7% and 71.3% respectively of the revenue from value-added services provided to non-property owners. As for other services, the income is primarily generated by property agency services, accounting for 22.1% of value-added services to non-property owners. As at 31 Dec 2017, A-Living had 62 property agency projects.

Value-added services to property owners

A-Living provides a wide spectrum of value-added services to property owners. These services are provided both through daily contact and interaction with property owners and residents during the process of providing traditional property management services, and through the one-stop service platform. A-Living's value-added services to property owners comprise 2 sub-segments: (1) Resident services and (2) Property value management services.

(1) Resident services

A-Living provides a variety of resident services to property owners and residents, focusing on their daily needs. The main resident services include (i) property maintenance and repair, (ii) housekeeping and cleaning services, (iii) decoration and turnkey furnishing services, (iv) purchase assistance, (v) wedding planning service, and (vi) travel services.

(2) Property value management services

A-Living provides property value management services to property owners, including residential property lease services. The Company maintains a portfolio of properties for rent and property owners bear the maintenance cost. If a property is successfully rented out, A-Living charges a commission calculated as a fixed proportion of the rental income.

One-stop service platform

The one-stop service platform helps synergize various services and integrate online and offline information and resources via smart applications. The one-stop service platform primarily comprises "A-Steward" (雅管家), "A-Business" (雅商家), and "A-Assistant" (雅助手).

A-Steward

This resident-oriented mobile application connects property management services, community value-added services and other products and services. It includes both traditional property management services (eg, payment of property management fees, cleaning services, and electronic entrance pass) and value-added services (eg, repair of household appliances, decoration, traffic violation check, purchase of daily necessities, laundry services, and express delivery).

A-Business

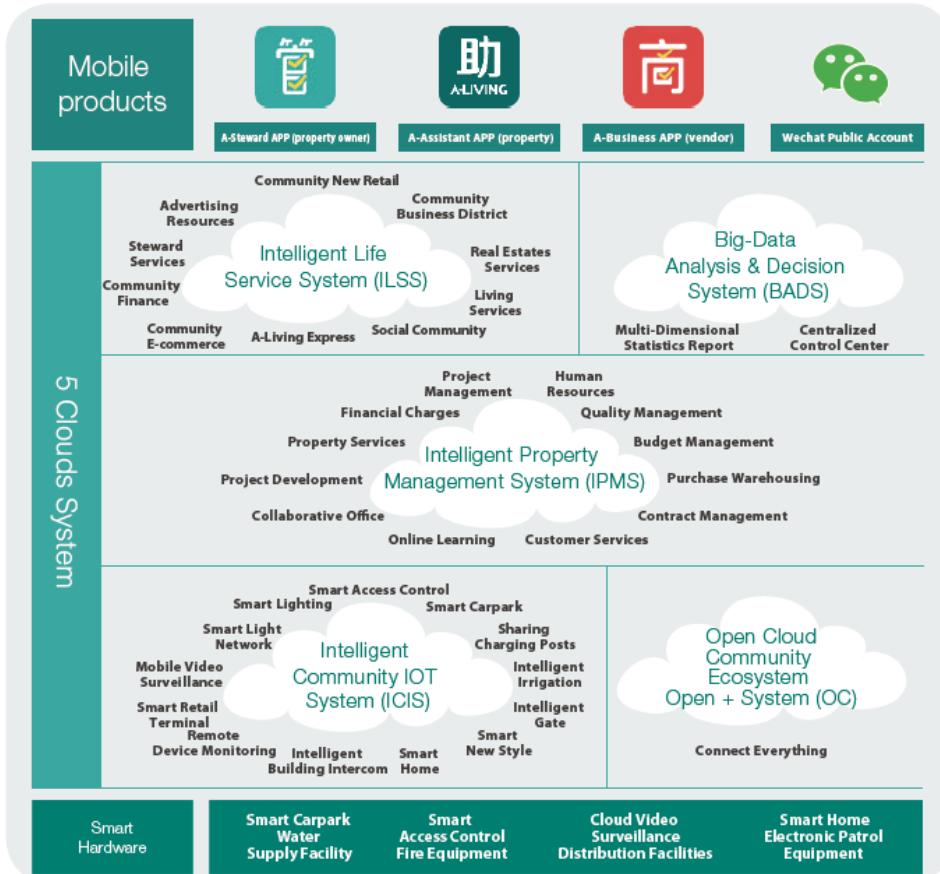
This is a mobile application designed for vendors who provide products and services on the one-stop service platform. Through "A-Business", vendors can achieve convenient and real-time management of their online stores.

A-Assistance

This mobile application is designed to help A-Living employees manage and monitor the one-stop service platform. With the coordination and interaction between "A-Steward" and "A-Business", it helps to optimize the flow of transactions completed on the one-stop service platform.

A-Living also launched “A-Steward Alliance” (雅管家聯盟) in Mar 2017, to share the benefits of a comprehensive technology platform with local property management companies. As at 31 Dec 2017, the Company’s “A-Steward” mobile application covered all of the residential properties under management (other than those under Greenland Property Services’ management), and attracted more than 287,000 registered users and over 110,998 active users. The contracted area of A-Steward Alliance has reached 816.8mn sq.m.

Figure 19: One-stop platform



Source: Company

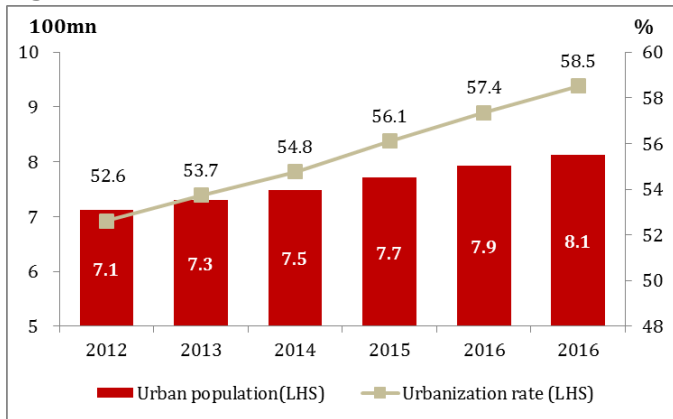
Investment thesis

In a sunrise industry

In recent years, following rapid urbanization and the continuous growth in per capita disposable income, property management market starts revealing its economic value. Value of property management business mainly consists of 2 segments: traditional property management services connected to the growing Housing stock market and value-added services or Community Economy related to the industrial upgrading.

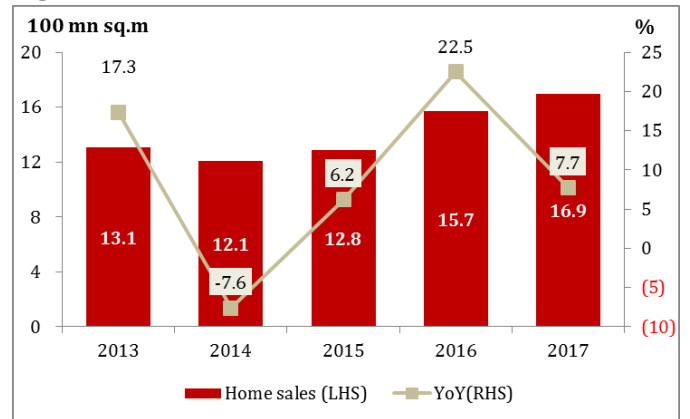
According to China Index Academy (CIA), market size of traditional property management services and community economy will both reach over Rmb1trillion by 2021. We expect property management industry continues to grow in tandem with rising level of urbanization demanding quality of uptown living. We are positive on outlook of the property management industry.

Figure 20: Urbanization rate



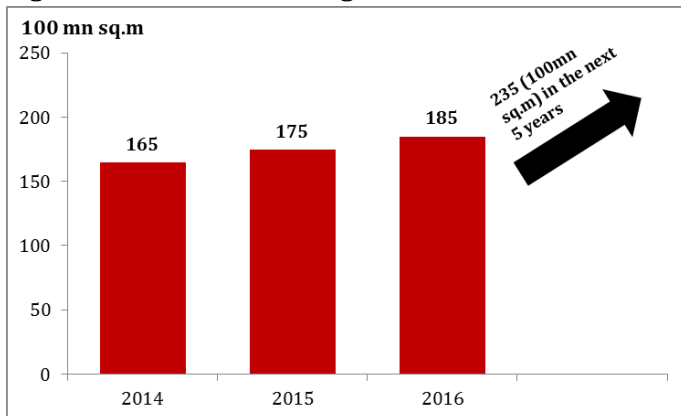
Source: NBS

Figure 21: Home sales



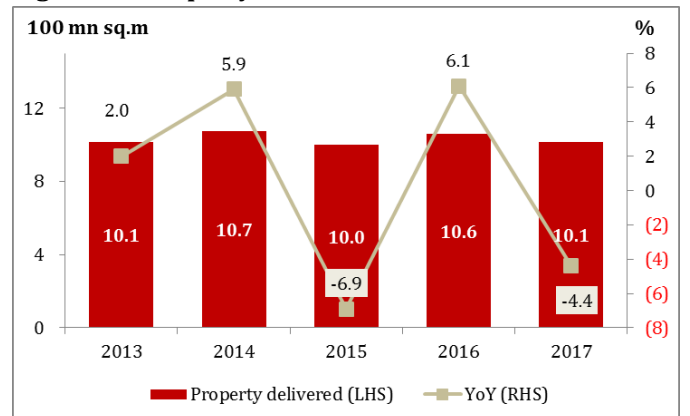
Source: NBS

Figure 22: GFA under management in China



Source: CIA

Figure 23: Property delivered



Source: NBS

More dedicated after spin-off and listing

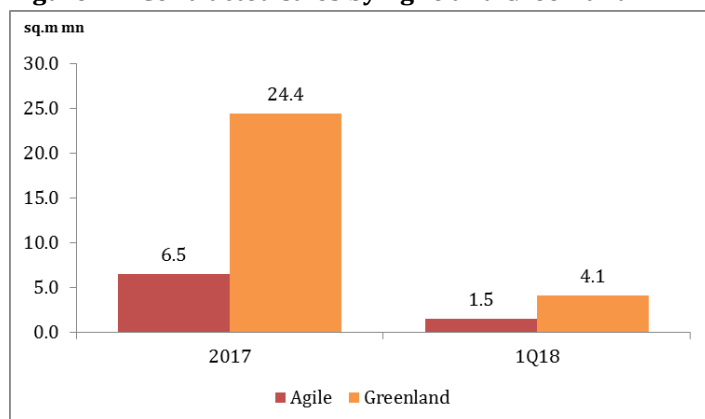
Before the listing, A-Living was affiliated with Agile and its development was coordinated with the parent Group. The reorganization with regard to IPO including Spin-off, introduction of strategic shareholder and H-Share Listing, enables A-Living to build its own identity as a separately group. A-Living now has a separate management structure with more focused development strategy. We expect the efficiency and profitability of A-Living to be enhanced under the new corporate governance. We believe A-Living has entered a high development period.

Supported by Agile and Greenland

Current property management industry is undergoing a competition of scale. We believe property management companies whose shareholders are large developers will have the upper hand. The controlling shareholders, Agile Group, will 100% deliver its projects to A-Living. The strategic shareholder, Greenland, has agreed to deliver a GFA of not less than 7mn sq.m. per annum to A-Living during 2018 to 2022 and to give A-Living priority for an additional GFA of 3mn sq.m. per annum, during the same period. In 2017, Greenland has achieved 24.4mn sq.m sales. We believe A-Living has strong incentive and advantage in obtaining more projects from its strategic shareholder. According to the management, Greenland has already delivered 4mn sq.m to the Company in 1Q18.

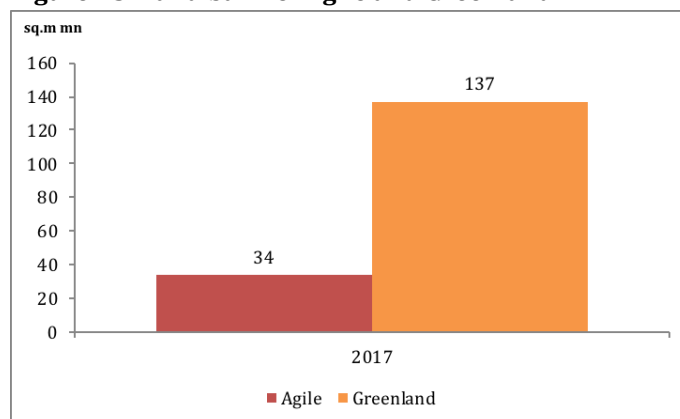
In 2017, Agile and Greenland have achieved 6.5mn sq.m and 24.4mn sq.m contracted sales respectively. Most of these contracted sales is expected to be delivered in 1-2 years. As of 31 Dec 2017, Agile and Greenland have total land bank of 34mn sq.m and 137mn sq.m, respectively. A-Living has a strong project pipeline.

Figure 24: Contracted sales by Agile and Greenland



Source: Company

Figure 25: Land bank of Agile and Greenland



Source: Company, as of 31 Dec 2017

Besides the project delivery, Agile and Greenland also give a huge support in value-added services to non-property owners or 2B business. A-Living announced on 27 Apr 2018 that it has entered 5 framework agreements with Agile and Greenland including:

- (1) the Technology Services Framework Agreement with Agile;
- (2) the Consultation Services Framework Agreement with Agile
- (3) the Turnkey Furnishing Services Framework Agreement with Agile;
- (4) the Consultation and Pre-delivery Inspection Services Framework Agreement with Greenland;
- (5) the Property Agency Services Framework Agreement with Greenland.

Figure 26: 5 framework agreements

	the Technology Services Framework Agreement	the Consultation Services Framework Agreement	the Turnkey Furnishing Services Framework Agreement	the Consultation and Pre-delivery Inspection Services Framework Agreement	the Property Agency Services Framework Agreement
Parties involved (A-Living is not counted)	Agile Holdings	Agile Holdings	Agile Holdings	Greenland Holdings	Greenland Holdings
Content	Pursuant to the Technology Services Framework Agreement, the parties agreed that the Company and/or its subsidiaries will provide technology products and relevant services to Agile Holdings and/or its subsidiaries, including but not limited to (i) intelligent products (智能产品); (ii) access control products (门禁产品); (iii) software; (iv) residential accessory products (家居配套产品); (v) software development; (vi) information system integration services; (vii) software platform technology services; and (viii) relevant consultation services (collectively, the "Provision of Technology Services").	Pursuant to the Consultation Services Framework Agreement, the parties agreed that the Group will provide consultation services in relation to property management to the property projects of Agile Group at their preparation stage, design stage, assessment of construction design stage, construction stage and delivery stage (项目准备阶段、规划设计阶段、施工图会审阶段、施工建设阶段及交付使用阶段), including but not limited to (i) formulation of property management services plan in accordance with the construction of the project and the target customers; (ii) provision of consultation on the master plan of the project and relevant design in relation to accessory facilities; (iii) inspection of construction progress and quality; and (iv) monitoring of repair and rectification service (维修保养服务) (collectively, the "Provision of Consultation Services").	Pursuant to the Turnkey Furnishing Services Framework Agreement, the parties agreed that the Group will provide turnkey furnishing services and relevant design, construction, management and after-sales services for properties developed by Agile Group (collectively, the "Provision of Furnishing Services").	Pursuant to the Consultation and Pre-delivery Inspection Services Framework Agreement, the parties agreed that the Group will provide: (a) consultation services in relation to property management to the property projects of Greenland Group at their preparation stage, design stage, assessment of construction design stage, construction stage and delivery stage (项目准备阶段、规划设计阶段、施工图会审阶段、施工建设阶段及交付使用阶段), including but not limited to (i) formulation of property management services plan in accordance with the construction of the project and the target customers; (ii) provision of consultation on the master plan of the project and relevant design in relation to accessory facilities; (iii) inspection of construction progress and quality; and (iv) monitoring of repair and rectification service (维修保养服务); and (b) pre-delivery inspection services, including but not limited to (i) housing safety assessment; (ii) decoration quality assessment; (iii) construction site quality assessment; (iv) unit inspection services (v) construction technology consultation services; (vi) construction project management services; and (vii) construction supervision services (collectively the "Provision of Consultation and Pre-delivery Inspection Services").	Pursuant to the Property Agency Services Framework Agreement, the parties agreed that the Group will provide property agency services, including but not limited to, providing marketing and sales services for properties developed by Greenland Group (collectively, the "Provision of Agency Services"). Under such arrangement, Greenland Group will cease to conduct direct marketing and sales services for properties developed by it and will engage the Company and/or other independent service providers to provide such services.
Term period	Till 31 December 2020	Till 31 December 2020	Till 31 December 2020	Till 31 December 2020	Till 31 December 2020
Annual Caps (Rmb)	FY18 101mn FY19 132mn FY20 182mn	FY18 173mn FY19 216mn FY20 237mn	FY18 30mn FY19 50mn FY20 60mn	FY18 130mn FY19 136.5mn FY20 143.5mn	FY18 120mn FY19 126mn FY20 135mn

Source: HKEX

Link: English Version <http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0427/LTN201804272314.pdf>

Chinese Version http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0427/LTN201804272315_C.pdf

Property Agency Services has been a fast-growing business. A-Living previous assisted Agile in property sales. In 2018, the Company will add Greenland into its client list. We are looking forward that A-Living's value-added services to non-property owners to become its feature business which differentiates itself from the peers.

Rapid expanding after IPO

According to the feedback from the reverse roadshow on 25 Apr 2018, first job of A-Living after its IPO is to expand the business scale through (1) organic growth and (2) M&A.

Other than receiving projects from shareholders, A-Living started to take 3rd parties projects in 2015. In 2017, A-Living founded a market development team with 200 elites focusing on obtaining new projects from 3rd party developers. Among the newly-added GFA under management in 2017, 62.5% came from 3rd party developer. In 1Q18, the team has successfully acquired 6mn sq.m, completing 25% of 2018 target of 24 mn sq.m.

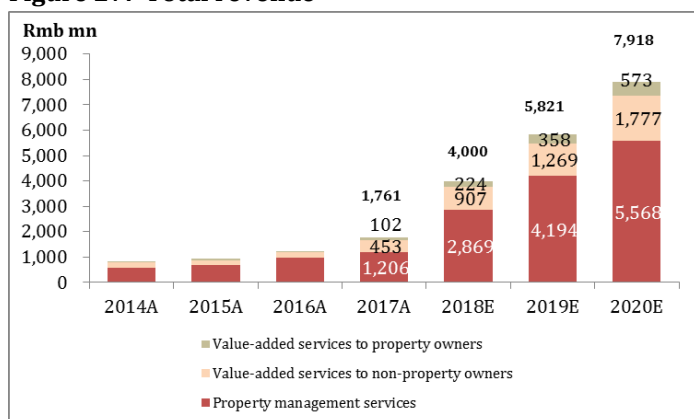
According to the IPO documents, approximately 65% of the net proceeds of the Global Offering will be used to pursue selective strategic investment and acquisition opportunities and to further develop strategic alliances. According to the management, investment targets should fulfill at least Rmb10mn net profit and 8-10% NPM. Targeted company is preferred to be located in 1st tier or core 2nd tier cities where A-Living has little or no exposure. A-Living also intends to keep the original management team to expand the local market. On 9 Apr, A-Living announced to acquire 51% equity interest of Nanjing Zizhu Property Management at a total consideration of Rmb205mn, which is equivalent to 11.9x FY17 PER or 10.7x FY18 PER (based on least profit target). We expect more M&A coming this year and the growth of A-Living will be promoted by its active M&A moves.

Financial Analysis

Property management services is the main driver of topline growth

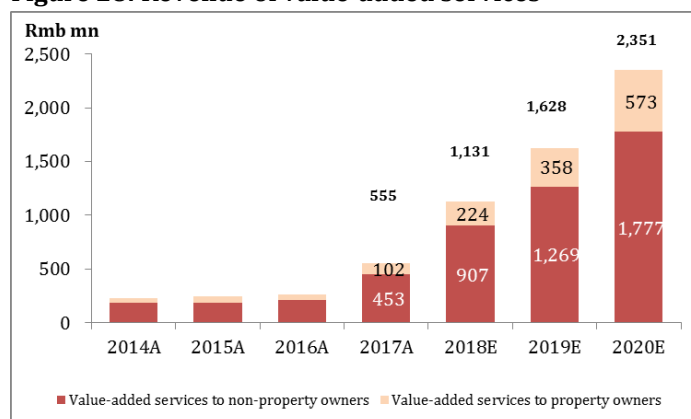
We expect the property management services continues to be the main driver of revenue growth as managed GFA increases robustly by support of Agile and Greenland as well as active M&A strategy. Moreover, we expect revenue of value added services to reach over Rmb1,000mn in FY18, mainly because of the growth of property agency business with its shareholders, Agile and Greenland. Therefore, total revenue is projected to be Rmb4,000mn, Rmb5,821mn and Rmb7,918mn in 2018-2020, representing a CAGR of 65% during 2017-2020.

Figure 27: Total revenue



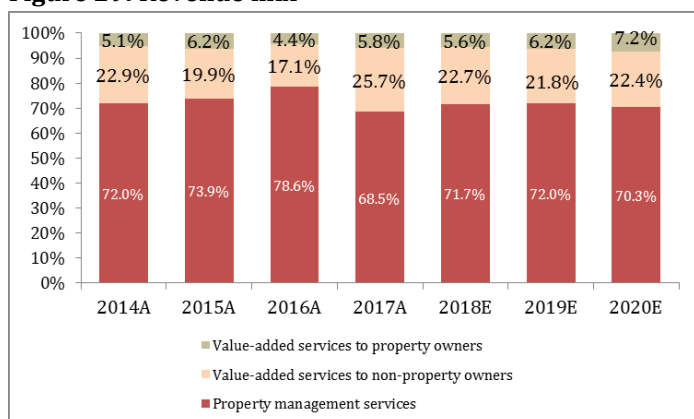
Source: Company, CMBIS estimates

Figure 28: Revenue of value-added services



Source: Company, CMBIS estimates

Figure 29: Revenue mix



Source: Company, CMBIS estimates

Gross profit margin is expected to be at 35% level in FY18-20

Historically, employee benefit expenses accounted for the largest portion of cost. But such cost is well controlled as A-Living applies a standardized management scheme and utilizes the technology (A-Steward). However, with more M&A and 3rd parties projects coming in, we do not expect gross margin of property management could improve significantly in the short run as these projects are often less profitable than Agile and Greenland's projects. On the other hand, we expect value-

added services could enjoy a higher margin as property agency services expand and more community service products to be launch. Therefore, we forecast GPM to be 34.8%, 34.6% and 35.1% in 2018-2020, respectively.

Figure 30: Costs to revenue

	2014A	2015A	2016A	2017A
Employee benefit expenses	54.3%	52.1%	45.4%	44.1%
Cleaning,greening and gardening expenses and main	13.4%	14.3%	16.5%	13.7%
Others	11.0%	12.2%	11.6%	13.3%
Business taxes and other levies	6.6%	6.5%	2.5%	0.9%
Utilities	7.4%	5.4%	6.8%	6.0%
Total	92.7%	90.5%	82.8%	78.0%

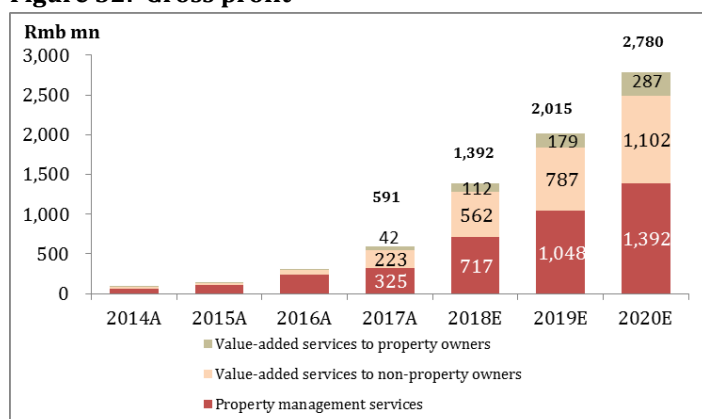
Source: Company

Figure 31: GPM assumption

	2014A	2015A	2016A	2017A	2018E	2019E	2020E
Property management services	11.0%	15.1%	24.9%	26.9%	25.0%	25.0%	25.0%
Value-added services to non-property owners	12.0%	15.7%	24.8%	49.3%	62.0%	62.0%	62.0%
Value-added services to property owners	25.3%	26.8%	28.1%	41.7%	50.0%	50.0%	50.0%
Overall	12.0%	15.9%	25.0%	33.5%	34.8%	34.6%	35.1%

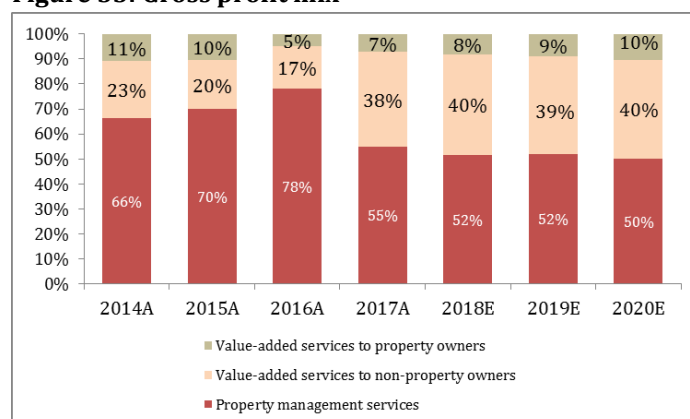
Source: Company, CMBIS estimates

Figure 32: Gross profit



Source: Company, CMBIS estimates

Figure 33: Gross profit mix



Source: Company, CMBIS estimates

SG&A slightly goes up

Since business expansion in 3rd parties and M&A projects requires certain acquisition expense, we expect SG&A to revenue will slightly go up in the future but still manageable with strong topline growth.

Figure 34: SG&A assumption

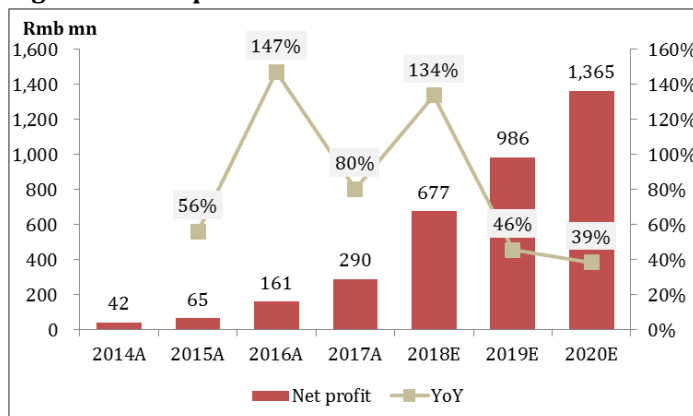
	2014A	2015A	2016A	2017A	2018E	2019E	2020E
SG&A as % of revenue	4.7%	6.5%	7.9%	11.5%	12.0%	12.0%	12.0%

Source: Company, CMBIS estimates

Net profit is projected to grow at CAGR of 68% during FY2017-2020

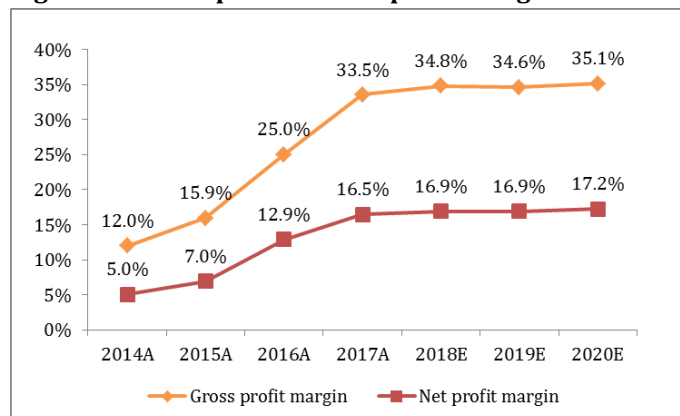
Driven by business scale and better product mix, we project the net profit to be Rmb677mn, Rmb986mn and Rmb1,365mn in FY2018-2020, representing a CAGR of 68% during the period and net profit margin will stay above 15% level.

Figure 35: Net profit



Source: Company, CMBIS estimates

Figure 36: Gross profit and net profit margin

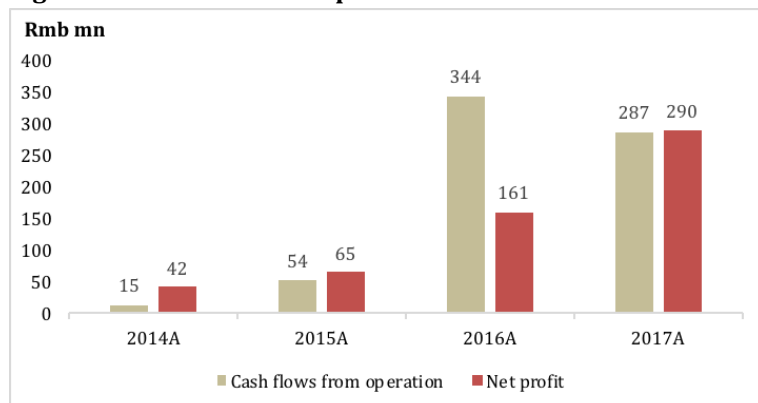


Source: Company, CMBIS estimates

Favorable net cash position

One of the reasons we like the property management industry is that revenue risk is relatively low and cash flow stream is stable. Furthermore, nearly all property management companies are light-asset model in nature. As of 31 Dec 2017, A-Living's cash on hand amounted to Rmb880mn. We expect the Company will keep its net cash position and cash from operation to be positive during our projection period. As for M&A, net proceed of IPO amounted to Rmb3,188mn, and 65% or Rmb2,072mn will be used in M&A or strategic investment. We believe such amount is sufficient on the current stage of development. Furthermore, there is also a potential of A-Living landing in onshore capital market in the future as its H-share structure.

Figure 37: Net cash from operation



Source: Company

Valuation

We estimate EPS of A-Living to be Rmb0.51, Rmb0.74 and Rmb1.02 in 2018-2020. Current share price is trading at 19.3x 18E PER and 12.3x 18E PER. We expect A-Living's net profit to surpass the market leader Greentown Service (2869 HK, BUY) in 2018. Using 25x 18E PER, we derive our Target Price of HK\$15.74, which is equivalent to 17.2x 19E PER. Initiate with **BUY**.

Figure 38: Peer group comparison

Company	Ticker	Mkt Cap (HK\$,100mn)	PE			Net Profit	
			FY2018E	FY2019E	FY2020E	FY 2017	FY2018E
GREENTOWN SERVICE GROUP CO L	2869 HK EQUITY	206	31.7	23.6	18.3	3.9	5.3
CHINA OVERSEAS PROPERTY HOLD	2669 HK EQUITY	86	21.3	17.7	15.1	2.7	3.2
COLOUR LIFE SERVICES GROUP	1778 HK EQUITY	87	13.2	10.8	8.5	3.2	5.3
NACITY PROPERTY SERVICE CO-A	603506 CH EQUITY	46	39.9	31.9	25.1	0.7	0.9
SHENZHEN WORLD UNION PROPE-A	002285 CH EQUITY	211	13.9	10.6	8.5	10.0	12.6
JONES LANG LASALLE INC	JLL US EQUITY	606	16.9	15.7	14.5	17.2	29.1
CBRE GROUP INC - A	CBRE US EQUITY	1,265	15.2	14.2	13.4	46.7	66.8
Average			21.7	17.8	14.8		
A-Living	3319 HK Equity	159	19.3	12.3	8.6	2.9	6.8

Source: Bloomberg, CMBIS estimates

Financial statements

Income statement

YE Dec 31 (Rmb mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	1,245	1,761	4,000	5,821	7,918
Property management services	978	1,206	2,869	4,194	5,568
Value-added services to non-property owners	212	453	907	1,269	1,777
Value-added services to property owners	55	102	224	358	573
Cost of sales	(933)	(1,170)	(2,609)	(3,807)	(5,138)
Gross profit	312	591	1,392	2,015	2,780
Other income and gains	5	11	24	46	56
Selling and marketing expenses	(19)	(33)	(80)	(116)	(158)
Administrative Expenses	(79)	(170)	(400)	(582)	(792)
Other operating expenses	(1)	(0)	-	-	-
EBIT	217	399	936	1,362	1,886
Associates	-	-	-	-	-
Finance costs, net	15	4	-	-	-
Exceptional	-	-	-	-	-
Pre-tax profit	232	403	936	1,362	1,886
Profits tax	(63)	(102)	(234)	(340)	(472)
Minority interests	(8)	(10)	(25)	(36)	(50)
Net profit	161	290	677	986	1,365

Source: Company data and CMBIS estimates

Balance sheet

YE Dec 31 (Rmb mn)	FY16A	FY17A	FY18E	FY19E	FY20E
Non-current assets	720	1,112	1,022	942	870
Property, plant and equipment	62	71	84	95	106
Investment in associated and JV	-	-	-	-	-
Others	647	12	12	13	14
Intangible	11	1,029	926	834	750
Current assets	1,179	1,399	6,228	7,874	9,845
Inventory	24	17	39	57	76
Trade and other receivables	223	488	1,000	1,455	1,980
Bank balances and cash	523	880	5,162	6,322	7,735
Restricted bank balances	3	0	0	0	0
Others	405	13	27	39	53
Current liabilities	1,000	1,015	2,101	3,066	4,139
Trade and other payables	732	923	2,007	2,928	3,952
Receipts in advance and other deposits	29	30	67	98	133
Bank borrowing	200	-	-	-	-
Others	39	62	27	39	53
Non-current liabilities	596	22	49	72	97
Bank borrowing	596	-	-	-	-
Others	0	22	49	72	97
Total net assets	303	1,474	5,100	5,678	6,479
Minority Interest	24	2	27	62	112
Shareholders' equity	280	1,472	5,074	5,616	6,367

Source: Company data and CMBIS estimates

Cash flow summary

YE Dec 31 (Rmb mn)	FY16A	FY17A	FY18E	FY19E	FY20E
EBIT	217	398	936	1,362	1,886
Depreciation and amortization	6	16	110	101	93
Change in working capital	187	(43)	561	497	535
Others	2	(7)	27	22	25
Taxation	(68)	(76)	(234)	(340)	(472)
Net cash from operating activities	344	287	1,399	1,642	2,067
Capex	(14)	(30)	(20)	(20)	(20)
Associated companies	-	-	-	-	-
Other	(201)	79	24	46	56
Net cash from investing activities	(215)	49	4	26	36
Equity raised	16	1,203	3,195	-	-
Change of Debts	201	(809)	-	-	-
Dividend paid	-	(298)	(271)	(444)	(614)
Interest paid	35	7	-	-	-
Others	(62)	(82)	(45)	(64)	(76)
Net cash from financing activities	190	20	2,879	(508)	(690)
Net change in cash	319	357	4,283	1,160	1,413
Cash at the beginning of the year	204	523	880	5,162	6,322
Exchange difference	-	-	-	-	-
Cash at the end of the year	523	880	5,162	6,322	7,735
Cash at balance sheet	523	880	5,162	6,322	7,735

Source: Company data and CMBIS estimates

Key ratios

YE Dec 31	FY16A	FY17A	FY18E	FY19E	FY20E
Sales mix (%)					
Property management services	78.6	68.5	71.7	72.0	70.3
Value-added services to non-properl	17.1	25.7	22.7	21.8	22.4
Value-added services to property ow	4.4	5.8	5.6	6.2	7.2
Total	100.1	100.0	100.0	100.0	99.9

Profit & loss ratios (%)

Gross margin	25.0	33.5	34.8	34.6	35.1
Pre-tax margin	18.6	22.9	23.4	23.4	23.8
Net margin	12.9	16.5	16.9	16.9	17.2
Effective tax rate	27.1	25.4	25.0	25.0	25.0

Growth (%)

Revenue	33.2	41.5	127.2	45.5	36.0
Gross profit	109.4	89.5	135.6	44.8	38.0
EBIT	147.2	83.5	134.8	45.6	38.5
Net profit	147.3	80.3	133.7	45.6	38.5

Balance sheet ratios

Current ratio (x)	1.2	1.4	3.0	2.6	2.4
Trade receivables turnover days	65	101	91	91	91
Trade payables turnover days	286	288	281	281	281
Inventory turnover days	9	5	5	5	5
Net debt to total equity ratio (%)	88.6	net cash	net cash	net cash	net cash

Returns (%)

ROE	57.5	19.7	13.3	17.6	21.4
ROA	8.9	12.0	9.7	11.6	13.2

Per share data

EPS (Rmb)	0.22	0.35	0.51	0.74	1.02
DPS (Rmb)	n.a.	n.a.	0.20	0.33	0.46
BVPS (Rmb)	0.37	0.53	3.11	3.59	4.21

Source: Company data and CMBIS estimates

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