



# Company Report: Aoyuan Healthy (03662 HK)

公司报告: 奥园健康 (03662 HK)

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21 September 2020

## Thriving With "One Body and Two Wings", Upgrade to "Buy"

一体两翼合力腾飞，上调至“买入”

- **The Company acquired a total of 60% equity interest in Zhejiang Liantianmei.** Zhejiang Liantianmei is a leading medical aesthetic services group in China. It currently operates two private medical aesthetic hospitals in Hangzhou and owns a total of 24 registered patents.
- **GFA under management is expected to register robust growth in 2H2020-2022.** The Company acquired two third-party property management companies with a total combined GFA under management of approximately 25.7 mn sq.m. We expect GFA under management for property management services to surge to approximately 45.0 mn sq.m by the end of 2020 and further grow to approximately 75.0 mn sq.m by the end of 2022.
- **"One body and Two Wings" strategy will bear rich fruit in the future.** At present, the Company's main operating businesses mainly consist of residential property management and commercial operations. Benefiting from acquisition of third-party property management companies and continued development in VAS businesses, revenue reliance on the Parent Group will be reduced significantly and property management revenue structure will also be further optimized. After years of development, the Company's current layout in the general health & wellness segment mainly consists of healthcare services, medical beauty services, traditional Chinese medicine services, etc. The Company also established an online and offline platform in order to further integrate the Company's major business segments. We expect general health and wellness business to become the Company's new growth engine in the near future.
- **We have revised up TP to HK\$10.50 per share and upgraded investment rating to "Buy".** The TP represents 26.7x/ 15.8x/ 11.2x 2020-2022 PER. Risk factors: lower-than-expected average management fee per GFA, uncertainties in third-party acquisitions and operation in general health and wellness business.
- **公司总计收购了浙江连天美 60% 的股份权益。**浙江连天美是中国领先的医美综合服务集团。其目前于杭州运营 2 家私立医美医院且拥有 24 项注册专利。
- **在管面积预计将于 2020 年下半年至 2022 年录得强劲增长。**公司收购了两家总在管面积达到约 2,570 万平方米的第三方物业管理公司。我们预计物业管理服务的在管面积将在 2020 年末激增至约 4,500 万平方米并于 2022 年末进一步增长至约 7,500 万平方米。
- **“一体两翼”战略将于未来结出硕果。**目前，公司的主营业务主要包括住宅物业管理和商业运营。得益于第三方物业管理公司的收购以及持续发展的增值服务业务，公司对母集团的收入依赖将大幅降低而物业管理的收入结构也将得到进一步的优化。经过多年的发展，公司当前在大健康板块的布局主要包含康养服务、医美服务以及中医药服务等。公司还建立了一个线上线下平台来进一步整合公司的几大业务板块。我们预计大健康业务将在不久的将来成为公司新的增长引擎。
- **我们上调目标价至每股 10.50 港元同时上调投资评级至“买入”。**目标价分别相当于 26.7 倍/ 15.8 倍/ 11.2 倍 2020-2022 年市盈率。风险因素：低于预期的平均每平方米管理费率，第三方收购及大健康业务存在不确定性。

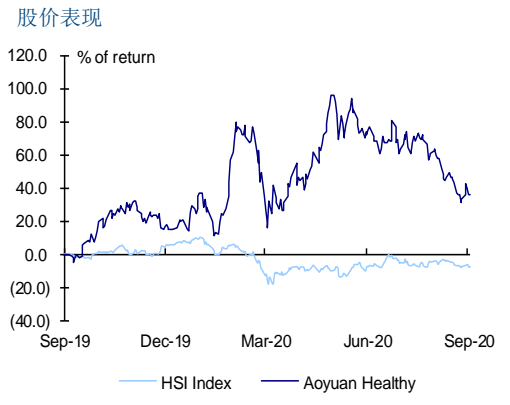
Rating: **Buy**  
Upgraded

评级: **买入 (上调)**

6-18m TP 目标价: **HK\$10.50**  
Revised from 原目标价: HK\$10.20

Share price 股价: **HK\$6.560**

### Stock performance



Change in Share Price	1 M	3 M	1 Y
股价变动	1 个月	3 个月	1 年
Abs. % 绝对变动 %	(13.9)	(23.4)	35.4
Rel. % to HS Index 相对恒指变动 %	(11.3)	(22.6)	42.8
Avg. Share price(HK\$) 平均股价 (港元)	7.0	7.7	7.0

Source: Bloomberg, Guotai Junan International.

Year End	Turnover	Net Profit	EPS	EPS	PER	BPS	PBR	DPS	Yield	ROE
年结	收入	股东净利	每股净利	每股净利变动	市盈率	每股净资产	市净率	每股股息	股息率	净资产收益率
12/31	(RMB m)	(RMB m)	(RMB)	(△%)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2018A	619	78	0.165	(6.2)	34.9	0.173	33.3	0.055	1.0	66.2
2019A	901	162	0.238	44.2	24.6	1.164	5.0	0.090	1.5	33.4
2020F	1,500	252	0.347	45.8	16.7	1.420	4.1	0.139	2.4	26.9
2021F	2,463	427	0.587	69.2	9.8	1.869	3.1	0.235	4.1	35.7
2022F	3,269	602	0.828	41.1	7.0	2.463	2.3	0.331	5.7	38.3

Shares in issue (m) 总股数 (m)	726.3	Major shareholder 大股东	China Aoyuan	54.6%
Market cap. (HK\$ m) 市值 (HK\$ m)	4,764.5	Free float (%) 自由流通比率 (%)		38.9
3 month average vol. 3 个月平均成交股数 ('000)	7,122.5	FY20 Net gearing (%) FY20 净负债/股东资金 (%)		Net Cash
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)	9.650 / 4.589	FY20 Est. NAV (HK\$) FY20 每股估值 (港元)		14.2

Source: the Company, Guotai Junan International.

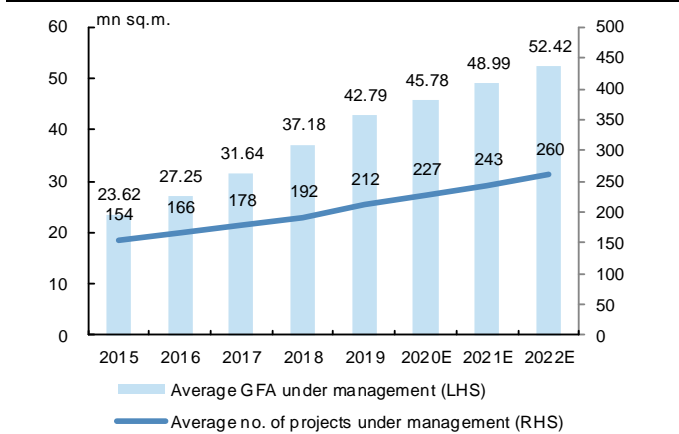
**The property management industry in China is highly fragmented and competitive.** According to China Index Academy (CIA) (中国指数研究院), there were approximately 130,000 service providers in the property management industry in 2019. We are of the view that the property management industry has relatively low barriers to entry, which enables small-scale market players to compete with mid-to-large market players. Core services provided mainly include cleaning services, security services, greening services, repair and maintenance services, public area maintenance, etc. It is also very common for property management service providers to sub-contract some services to third-party contractors.

**Many property management companies developed value-added services to further expand business scope.** Value-added services (VAS) mainly include (i) VAS to non-property owners; and (ii) community VAS. VAS to non-property owners mainly consists of sales assistance services, pre-delivery cleaning, repair and inspection services, preliminary planning and design consultancy services and other tailored services. Community VAS primarily consists of home cleaning services, shopping services, home decoration services, common area management services, property agency services, travel agency services, etc.

**The management scale of the top 100 property management companies experienced fast growth during 2015-2019.** According to CIA, the average GFA under management of the top 100 property management companies increased from 23.62 mn sq.m in 2015 to 42.79 mn sq.m in 2019, representing a CAGR of 16.0%. CIA estimates that the average GFA under management of the top 100 property management companies will increase to 52.42 mn sq.m in 2022, representing a CAGR of 7.0% during 2019-2022.

**The market is becoming increasingly concentrated.** In the scattered and competitive property management industry, large-scale property management companies are actively improving their geographical layout and are accelerating expansion to increase market share and achieve better results of operations, primarily through organic growth and mergers and acquisitions. According to CIA, the market share of the top 100 property management companies increased from 28.4% in 2015 to 43.6% in 2019. Market share of the top 10 property management companies increased from 7.6% in 2015 to 9.2% in 2019.

**Figure 1: Average GFA under Management and Average Number of Properties of the Top 100 Property Management Companies in China**



Source: China Index Academy.

**Figure 2: Total GFA under Management and Market Share of the Top 100 Property Management Companies in China**



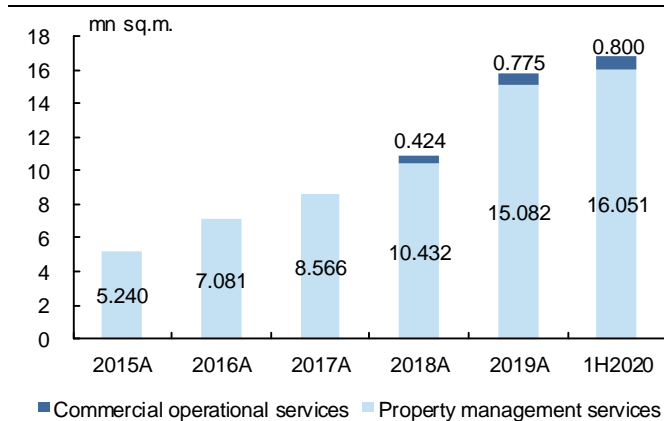
Source: China Index Academy.

**Growth in per capita disposable income and continued urbanisation are key growth drivers for the industry.** According to the National Bureau of Statistics of China, per capita disposable income of urban residents in China increased from RMB28,844 in 2014 to RMB42,359 in 2019, representing a CAGR of 8.0%. Steady growth of the Chinese economy has created a larger share of new middle-class families. We believe that middle-class families have strong purchasing power and will be willing to pay premiums for quality property management services. According to the National Bureau of Statistics of China and the National Development and Reform Commission, city residents accounted for 60.60% of the total population in 2019, while city residents with valid city household registration only accounted for 44.38% of the total population in 2019. In 2020, the central government has been aiming to encourage 100 mn residents to obtain city household registration. Considering accelerated household registration reform and continued economic development, we think that the urbanization rate in China is still far from peaking. We anticipate that the market size of the property management industry will further expand amidst continued urbanisation in China.

**Aoyuan Healthy's (the "Company") total GFA under management increased slightly in 1H2020.** GFA under management for property management services increased from 15.08 mn sq.m as at the end of 2019 to 16.05 mn sq.m as at the end of 1H2020, mainly driven by the delivery of properties developed by China Aoyuan (03883.HK, the "Parent Group") and its related parties. As at 30 Jun. 2020, the Company provided commercial operational services to 17 shopping malls with a total GFA under management of 0.80 mn sq.m.

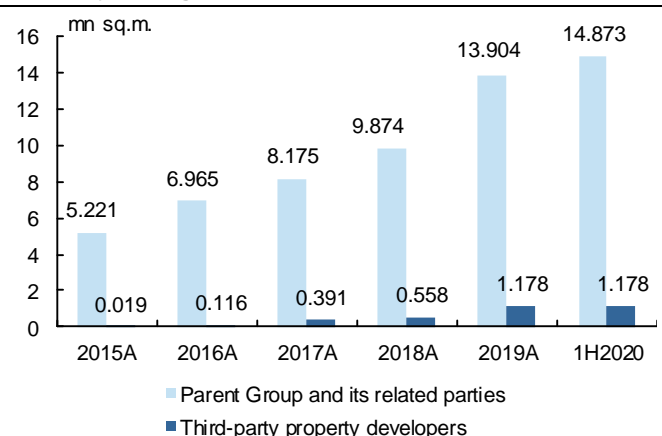
**We expect GFA under management for property management services to surge to around 75 mn sq.m as at the end of 2022, equivalent to 5 times the management scale as at the end of 2019.** The Company conducted two acquisitions of third-party property management companies in 1H2020: (i) acquisition of 80% equity interest in Easy Life (乐生活) for a consideration of RMB248 mn, and (ii) acquisition of 65% equity interest in Ningbo Hongjian (宁波宏建) for a consideration of RMB35.3 mn. Easy life is a large-scale property management company based in Beijing with total GFA of approximately 23.3 mn sq.m, which manages 220 projects in Beijing, Hebei, Henan, Tianjin, Chongqing and Sichuan. Ningbo Hongjian is a property management company that mainly operates its businesses in Ningbo, Zhejiang Province. Ningbo Hongjian currently has 34 projects under management with a contracted GFA of approximately 2.4 mn sq.m. The Company's 1H2020 operating data and financial results did not reflect any of these new acquisitions because the aforesaid two acquisitions were completed at the end of 1H2020. We expect those two acquisitions to bear rich fruit in 2H2020, driving GFA under management for property management services to increase from 16.05 mn sq.m as at the end of 1H2020 to approximately 45.00 mn sq.m as at the end of 2020. Riding on internal organic growth and external strategic acquisitions, we expect GFA under management for property management services to surge at a CAGR of 69.5% from 15.08 mn sq.m in 2019 to 75.00 mn sq.m in 2022.

**Figure 3: The Company's GFA under Management**



Source: the Company.

**Figure 4: The Company's GFA under Management for Property Management Services**



Source: the Company.

**Aoyuan Healthy acquired a total of 60% equity interest in Zhejiang Liantianmei Corporate Management Company Limited ("Zhejiang Liantianmei") (浙江连天美企业管理有限公司).** The Company acquired 5% of equity interest in Zhejiang Liantianmei in Mar. 2020. On 18 Sep. 2020, Aoyuan Healthy announced to acquire another 55% equity interest in Zhejiang Liantianmei at a maximum cash consideration of RMB691,000,000. In 1H2020, total revenue and net profit after taxation (unaudited) of Zhejiang Liantianmei amounted to RMB211.734 mn and RMB46.155 mn, respectively. Zhejiang Liantianmei is a leading medical aesthetic services group in China. It currently operates two private medical aesthetic hospitals with an aggregate operating area of approximately 30,000 sq.m, namely Hangzhou Huashan Luxeme Medical Cosmetology Hospital (杭州华山连天美医疗美容医院) and Hangzhou Victoria Medical Cosmetology Hospital (杭州维多利亚医疗美容医院), which were accredited with 5A Rating Management Standard and possess the operational qualifications for standardized medical institutions (including the Qualification of Level 4 High Complexity Surgery (四级高难度手术资质) obtained by Hangzhou Huashan Luxeme Medical Cosmetology Hospital). As at 18 Sep. 2020, Zhejiang Liantianmei owned a total of 24 registered patents.

**Acquisition of Zhejiang Liantianmei marks a significant milestone in the Company's implementation of "One Body and Two Wings" strategy.** The Company's three major business segments include (i) residential property management, (ii) commercial operation, and (iii) general health and wellness services. Currently, Aoyuan Healthy's strategic layout in the general health and wellness industry mainly consists of three major business segments, namely (i) healthcare services, (ii) medical beauty services, and (iii) TCM services.

**Table 1: The Company's Strategic Layout in General Health & Wellness Business**

Segment	Business Scope	Recent Achievements
<b>Healthcare Services</b> (康养服务)	(1) Elderly care at home, at institution, and during sojourn with community elderly care as the foundation. (2) Online intelligent healthcare platform, connecting offline healthcare cards, and providing more than 70 comprehensive healthcare services in three categories: healthy aging, happy aging and learning while aging. (3) Research, consultation and industrial guidance services through combining international advanced models, advanced products and technologies with the development of the health care industry in China.	(1) Opened the first Cardiopulmonary Rehabilitation Training Camp (心肺康养训练营) in southern China through cooperation with Jiangmen Gudou Hot Spring Town (江门古兜温泉小镇) in 1H2020. (2) The "Aoyuan Home" (奥悦之家) community healthcare brand covering property service and elderly care service was officially launched for trial in three communities in Guangzhou and Zhuhai during 1H2020.
<b>Medical Beauty Services</b> (医美服务)	(1) Operating medical beauty brand "MS ARORA" and cosmetics brand "AORORA LAB". (2) Operating three medical beauty clinics, which provide skincare treatments, laser skincare, and micro cosmetics. (3) Establishing Oriental Beauty Valley (东方美谷) project in Shanghai under an asset-light business model.	(1) Newly launched application mall and opened stores on Meituan (美团) and Dianping (大众点评) (2) Jointly developed and launched first cosmetics product with a well-known Korean cosmetics research and development company "Cosmax Group" (科诗美丝集团) in 1H2020. (3) Acquired 60.0% equity interest in Zhejiang Liantianmei (浙江连天美) in 2020, which is a leading medical aesthetic services group headquartered in Hangzhou.
<b>Traditional Chinese Medicine ("TCM") Services</b> (中医药服务)	(1) Operating two TCM centers in Guangzhou Panyu Aoyuan Healthcare Plaza (广州番禺奥园养生广场) and Guangzhou Luogang Aoyuan Plaza (广州萝岗奥园广场). (2) Establishing a team of well-known TCM practitioners, delivering services of massage, moxibustion, acupuncture, internal and external TCM treatment, and external washing, etc. (3) Regularly carries out free diagnosis, health consultation and other publicity activities in the communities.	(1) Signed dual referral agreement with Guangzhou Panyu District Hospital of Traditional Chinese Medicine (广州市番禺区中医院) and Guangzhou Hospital of Traditional Chinese Medicine (广州市中医院) to provide quick referral green channels and expert medical consultation for patients. (2) Expanded TCM business in multiple channels, including decoction and delivery service, TCM-related products research and development and the development of community medical care and TCM nursing treatment business models exploration.
<b>Online &amp; Offline ("O2O") Platform</b> (线上线下平台)	(1) Establishing two major technology companies "Aozhiyun Technology" (奥智云科技) and "Aoija Technology" (奥佳科技). (2) Launching Android and iOS mobile applications and Wechat public account of "Aoyuejia" (奥悦家), focusing on three core content of Yue Activity (悦活动), Yue Community (悦社区) and Yue Health (悦健康).	(1) As of 30 June 2020, the "Aoyuejia" mobile application covers 95 residential and commercial properties managed by the Company, with a total registered users of approximately 58,611.

Source: the Company, Guotai Junan International.

**Aoyuan Healthy held an online conference on 21 Sep. 2020, here are some key takeaways from the conference:** As for the property management segment, (i) GFA under management for property management services is expected to reach 75-80 mn sq.m by 2022 (5 times the management scale as at the end of 2019), (ii) Newly added GFA sourced from external third-party expansion will account for at least 10%, (iii) Community VAS revenue will account for 15%-20% of the total revenue, and (iv) management scale of residential and non-residential properties will account for 70% and 30% of the total management scale, respectively. As for commercial operation segment, (i) planning to open 6-8 new shopping malls every year, and (ii) planning to add 1-2 new projects under the Company's "Industry Operation Model" (产业运营模式). As for medical beauty business, (i) net profit of the newly acquired medical beauty group is expected to grow 10%-15% every year, (ii) attracting at least 10,000 new users with high loyalty through promoting in communities and core commercial districts. In aggregate, the Company's financial results are expected to grow at a CAGR of 55%-60% during the next few years.

**1H2020 revenue increased by 39.5% YoY to RMB546.9 mn, which was basically in line with our expectation.** Revenue from the property management services segment increased by 43.4% YoY to RMB412.2 mn, accounting for 75.4% of the total revenue. Revenue generated from core property management services grew by 30.4% YoY to RMB233.2 mn, mainly as a result of the increase in GFA under management. Revenue generated from major owners VAS increased by 55.3% YoY to RMB120.8 mn, mainly due to the new services provided by the Company to major owners, such as pre-completion delivery inspection services and intelligent community construction and planning services. Revenue generated from community VAS surged by 88.6% YoY to RMB58.2 mn, primarily driven by diversified supporting services provided by the Company in communities, such as household services, home delivery and medical services. In addition, core property management services revenue sourced from third-party developers increased by 63.7% YoY to RMB22.9 mn, accounting for 9.8% of total core property management services revenue.

**Overall gross profit margin increased by 0.6 ppts YoY to 40.1% in 1H2020.** Cost of services increased by 38.2% YoY to RMB327.4 mn in 1H2020. Labor costs increased by 18.5% YoY to RMB157.7 mn, accounting for 48.2% of the total cost of services. In 1H2020, gross profit increased by 41.5% YoY to RMB219.5 mn, while overall gross profit margin increased by 0.6 ppts YoY to 40.1%. The increase in overall gross profit margin was mainly due to (i) greater economies of scale of property management services, and (ii) government reduction and exemption policies for employee social security and housing provident funds during the local COVID-19 epidemic, which partially offset the increase in cost of services. Gross profit margin for property management services segment increased by 2.5 ppts YoY to 39.7%, while gross profit margin for commercial operational services dropped by 4.6 ppts YoY to 41.5%. We believe that the outbreak of the COVID-19 pandemic adversely affected the retail industry in China during 1H2020. At present, the pandemic has basically been contained in China. We expect the performance of retail market and consumer confidence to resume to normal from 2H2020 onwards, which will drive profitability recovery of the Company's commercial operations business.

**Shareholders' net profit increased by 23.5% YoY to RMB111.1 mn, basically in line with expectations.** Administrative and other expenses to revenue ratio dropped by 1.2 ppts YoY to 10.5%, mainly due to the impact from the COVID-19 pandemic and increased efforts made by the Company to control expenses. Selling and distribution expenses to revenue ratio dropped by 0.2 ppts YoY to 0.1%. Total interest-bearing debt increased from RMB100.3 mn as at the end of 2019 to RMB229.6 mn as at the end of 1H2020, mainly driven by the increase in short-term bank borrowings. As a result, finance cost surged from RMB2.3 mn in 2019 to RMB5.9 mn in 1H2020. Total cash increased from RMB822.9 mn as at the end of 2019 to RMB993.3 mn as at the end of 1H2020. In terms of net gearing ratios, the Company still maintained a net cash position on its balance sheet. Effective tax rate increased by 7.8 ppts YoY to 29.9%. As a result, shareholders' net profit increased by 23.5% YoY to RMB111.1 mn in 1H2020, which accounted for 46.2% of our forecasted shareholders' net profit in 2020 and was in line with our expectation. The Company recorded listing expenses of RMB15.92 mn in 1H2019. Excluding listing expenses, adjusted shareholders net profit increased by 4.9% YoY from RMB105.9 mn in 1H2019 to RMB111.1 mn in 1H2020. The Company did not declare any interim dividend for 1H2020, which is in accordance with the dividend policy in previous years.

**Table 2: Comparison of the Company's Income Statement in 1H2019 and 1H2020**

RMB mn	1H2019	1H2020	Change
Total revenue	392	547	39.5%
- Property management services segment	287	412	43.4%
- Commercial operational services segment	104	135	28.9%
Gross profit	155	220	41.5%
Overall GPM	39.6%	40.1%	0.6 ppt
- GPM for property management services segment	37.2%	39.7%	2.5 ppts
- GPM for commercial operational services segment	46.1%	41.5%	(4.6 ppts)
Shareholders' net profit	90	111	23.5%
Adjusted shareholders' net profit	106	111	4.9%
Shareholders' NPM	22.9%	20.3%	(2.6 ppts)
Adjusted shareholders' NPM	27.0%	20.3%	(6.7 ppts)
Basic EPS (RMB)	0.141	0.153	8.8%
Adjusted EPS (RMB)	0.166	0.153	(7.6%)

Source: the Company, Guotai Junan International.

Note: Adjusted shareholders' net profit equals shareholders' net profit with listing expenses added back

**Table 3: Comparison of the Company's Balance Sheet as at the End of 2019 and 1H2020**

RMB mn	2019	1H2020	Change
Total cash	823	993	20.7%
Total assets	1,386	1,622	17.0%
Total liabilities	100	230	128.9%
Total debt	540	729	35.1%
Net debt / Total equity (Net gearing)	Net Cash	Net Cash	n.a.
Total liabilities / total assets	39.0%	45.0%	6.0 ppts
Average trade receivables turnover days	23.5	26.6	13.1%
Average trade payables turnover days	28.0	31.3	11.9%

Source: the Company, Guotai Junan International.

Note: Total cash include both restricted bank deposits and bank balances and cash.

**We have revised up shareholders' net profit estimations.** Aoyuan Healthy acquired a total of 60% equity interest in Zhejiang Liantianmei, which is expected to further increase the Company's total revenue in 2H2020-2022. We also expect the Company's property management and commercial operation businesses to expand at a fast pace, riding on internal organic growth and external strategic acquisitions. Thus, we have revised up total revenue in 2020F/ 2021F/ 2022F by 4.7%, 23.7% and 25.4%, respectively. The Company's gross profit margin in 1H2020 slightly beat our expectation. Moreover, we expect the Company's general health and wellness business to further improve the overall gross profit in 2021-2022 amidst acquisition of Zhejiang Liantianmei in 2H2020. Therefore, we have revised up gross profit margin in 2020F/ 2021F/ 2022F by 0.2 ppts, 2.7 ppts and 3.6 ppts, respectively. However, acquisition of 60% equity interest in Zhejiang Liantianmei will also create non-controlling interests. We expect net profit attributable to non-controlling interests to increase in 2H2020-2022. In aggregate, we have revised up shareholders' net profit in 2020F/ 2021F/ 2022F to RMB252 mn, RMB427 mn and RMB602 mn, respectively.

**Table 4: Revisions to 2020-2022 Profit Estimations**

RMB mn	New estimation			Old estimation			Change		
	2020F	2021F	2022F	2020F	2021F	2022F	2020F	2021F	2022F
Total revenue	1,500	2,463	3,269	1,434	1,991	2,607	4.7%	23.7%	25.4%
Gross profit	552	960	1,309	524	722	949	5.4%	32.9%	37.9%
Operating profit	371	652	898	327	448	591	13.3%	45.5%	52.0%
Shareholders' net profit	252	427	602	240	322	420	4.8%	32.5%	43.1%
Gross profit margin	36.8%	39.0%	40.0%	36.6%	36.3%	36.4%	0.2 ppts	2.7 ppts	3.6 ppts
Operating profit margin	24.7%	26.5%	27.5%	22.8%	22.5%	22.7%	1.9 ppts	4.0 ppts	4.8 ppts
Shareholders' net profit margin	16.8%	17.3%	18.4%	16.8%	16.2%	16.1%	0.0 ppts	1.2 ppts	2.3 ppts
ROE	26.8%	35.7%	38.3%	25.8%	28.4%	30.2%	1.1 ppts	7.3 ppts	8.0 ppts
ROA	17.1%	23.9%	26.0%	16.4%	18.9%	20.1%	0.7 ppts	5.0 ppts	5.9 ppts
Net debt / Total equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash	n.a.	n.a.	n.a.

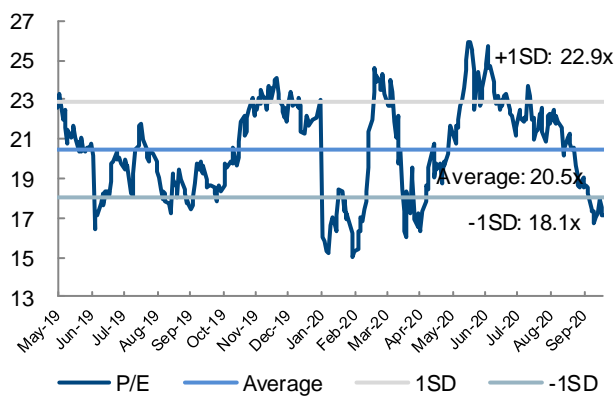
Source: Guotai Junan International.

**We have upgraded investment rating to "Buy".** The Company's total GFA under management is expected to surge in 2020-2022, driven by cooperation with China Aoyuan and large-scale strategic acquisitions. Benefiting from acquisition of third-party property management companies and continued development in VAS, revenue reliance on the Parent Group will be reduced and revenue structure will be further optimized. The Company's acquisition of Zhejiang Liantianmei marked a significant milestone in the Company's development history in general health and wellness business. Moreover, the Company has organized a professional and ambitious senior management team that has deep understandings of both property management business and general health & wellness business. In aggregate, we believe that the synergy between the Company's three major business segments will bear rich fruit in the long term. Considering the lack of track records and uncertainties in the daily operations of medical beauty business, we remain prudently optimistic about the Company's business expansion. At present, our relative valuation on the Company still mainly references peers in the property management segment. The Company's current valuation is attractive compared to its peers in the property management industry. Considering robust growth prospect and low valuation, we have revised up target price to HK\$10.50, representing a 26.0% discount to its 2020E NAV of HK\$14.20 per share and 26.7x/ 15.8x/ 11.2x 2020-2022 PER, respectively. We have also upgraded Aoyuan Healthy's investment rating to "Buy". Risk Factors: lower-than-expected average management fee per GFA and uncertainties in third-party acquisitions and operation in general health and wellness business.

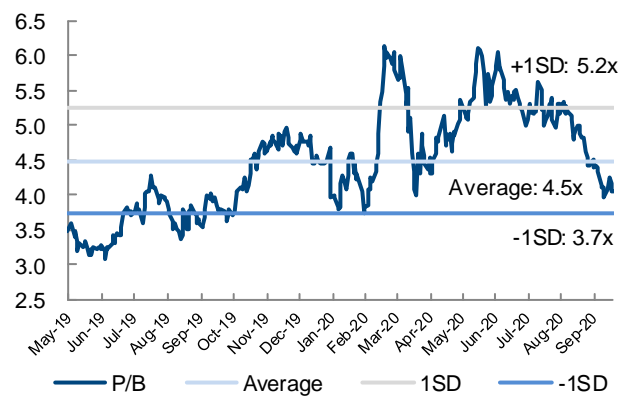
**Table 5: Aoyuan Healthy's DCF Analysis**

Assumptions		DCF Calculation	
Risk Free Rate	0.69%	Sum of PV FCFF (RMB mn)	4,003
Market Return	10.12%	+ PV terminal value (RMB mn)	4,513
Market Risk Premium	9.44%	Enterprise value (RMB mn)	8,516
Beta	1.10	+ (Net debt)/Cash (RMB mn)	570
Cost of Equity	11.1%	Equity value (RMB mn)	9,086
After Tax Cost of Debt	4.0%	Assume RMB/HK\$	0.8813
E/(D+E)	90.0%	Equity value (HK\$ mn)	10,309
WACC	10.4%	Shares outstanding ('000)	726,250
Long Term Growth Rate	2.0%	NAV per share (HK\$)	14.20

Source: the Company, Guotai Junan International.

**Figure 5: The Company's Forward P/E Ratio (Current Annual)**


Source: Bloomberg, Guotai Junan International.

**Figure 6: The Company's Forward P/B Ratio (Current Annual)**


Source: Bloomberg, Guotai Junan International.

**Table 6: Peers Comparison**

Company	Stock code	Currency	Mkt Cap (HK\$ mn)	PE				PB				ROE(%) 2020F	D/Y(%) 2020F
				2019A	2020F	2021F	2022F	2019A	2020F	2021F	2022F		
<b>HK listed property management companies with major business in mainland China</b>													
Country Garden Services Hold	06098 HK	HKD	142,660	72.6	50.7	35.9	26.3	23.3	16.6	12.2	9.0	35.9	0.6
A-Living Services Co Ltd-H	03319 HK	HKD	53,600	38.5	27.2	20.7	16.4	7.7	6.5	5.5	4.6	25.1	1.5
Poly Property Services Co Lt	06049 HK	HKD	38,042	50.1	46.0	33.9	25.7	6.5	5.8	5.2	4.5	13.0	0.7
Greentown Service Group Co L	02869 HK	HKD	30,210	48.7	37.6	29.2	23.0	8.5	5.2	4.7	4.1	15.9	1.1
Ever Sunshine Lifestyle Serv	01995 HK	HKD	26,994	97.7	59.9	38.8	26.1	19.3	11.5	9.5	7.6	21.4	0.5
China Overseas Property Hold	02669 HK	HKD	21,693	40.3	32.2	25.1	19.7	14.3	10.7	8.1	6.2	36.2	0.9
S-Enjoy Service Group Co Ltd	01755 HK	HKD	18,594	58.9	37.9	25.5	17.6	18.0	13.1	9.8	7.5	37.1	1.4
Powerlong Commercial Managem	09909 HK	HKD	18,552	59.8	55.0	37.7	27.9	10.1	8.7	7.6	6.5	15.5	1.0
Central China New Life Ltd	09983 HK	HKD	11,330	n.a.	25.1	17.5	13.2	n.a.	3.6	3.1	2.7	20.7	1.1
Times Neighborhood Holdings	09928 HK	HKD	10,192	70.1	37.6	21.9	12.1	9.4	6.2	5.1	2.8	19.5	0.8
Sichuan Languang Justbon -H	02606 HK	HKD	8,211	13.1	12.2	9.2	7.0	3.3	2.8	2.3	1.9	24.5	3.1
Zhenro Services Group Ltd	06958 HK	HKD	5,748	n.a.	23.9	16.8	11.8	n.a.	n.a.	n.a.	n.a.	22.5	1.2
Colour Life Services Group	01778 HK	HKD	5,718	9.5	9.0	8.3	7.5	1.3	1.1	1.0	0.9	13.4	3.0
Binjiang Service Group Co Lt	03316 HK	HKD	4,964	36.0	23.0	18.9	15.2	6.1	n.a.	n.a.	n.a.	24.5	2.2
Aoyuan Healthy Life Group Co	03662 HK	HKD	4,764	24.3	17.4	12.4	9.7	5.0	4.1	3.3	2.7	26.1	2.3
Kaisa Prosperity Holdings Lt	02168 HK	HKD	4,058	19.9	15.5	11.2	8.1	5.0	3.0	2.6	2.2	26.4	2.5
Financial Street Property -H	01502 HK	HKD	3,668	22.2	23.5	18.1	13.4	n.a.	n.a.	n.a.	n.a.	19.2	1.3
Redsun Services Group Ltd	01971 HK	HKD	2,482	n.a.	24.5	14.7	10.3	n.a.	3.3	3.0	2.5	12.6	1.3
Yincheng Life Service Co Ltd	01922 HK	HKD	2,054	42.4	n.a.	n.a.	n.a.	15.0	n.a.	n.a.	n.a.	n.a.	n.a.
Xinyuan Property Management	01895 HK	HKD	1,863	13.7	n.a.	n.a.	n.a.	2.0	n.a.	n.a.	n.a.	n.a.	n.a.
Hevol Services Group Co Ltd	06093 HK	HKD	1,080	50.0	n.a.	n.a.	n.a.	4.9	n.a.	n.a.	n.a.	n.a.	n.a.
Zhong Ao Home Group Ltd	01538 HK	HKD	1,000	7.8	6.7	5.3	n.a.	1.3	1.0	0.8	n.a.	n.a.	2.6
Riverine China Holdings Ltd	01417 HK	HKD	923	50.2	1.5	1.2	1.0	3.6	0.3	0.2	0.2	17.4	n.a.
Clifford Modern Living Holdi	03686 HK	HKD	558	5.2	n.a.	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	n.a.	n.a.
Simple Average				39.6	28.3	20.1	15.4	8.3	6.1	4.9	4.1	22.5	1.5
Weighted Average				57.8	41.1	29.3	21.7	14.8	10.6	8.2	6.4	26.9	1.0

Source: the Company, Guotai Junan International.

**Financial Statements and Ratios**

Income Statement						Balance Sheet					
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F	Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Total revenue	619	901	1,500	2,463	3,269	Property, plant and equipment	13	20	102	102	97
- Property management services	453	646	1,089	1,604	2,206	Right-of-use assets	0	101	306	318	331
- Commercial operation services	166	254	340	459	613	Intangible assets	3	4	12	12	9
- Others	0	0	72	400	450	Goodwill	3	3	3	3	3
Cost of sales	(410)	(564)	(948)	(1,503)	(1,960)	Interests in joint ventures	0	8	17	19	20
Gross profit	209	337	552	960	1,309	Deferred tax assets	7	3	3	3	3
Other income	7	30	16	16	17	Deposits paid for acquisition of PPE	1	0	0	0	0
Impairment losses	(1)	(4)	(4)	(5)	(6)	Trade and other receivables	0	209	284	361	447
Gain on deemed disposal of subsidiaries	0	5	4	4	4	Deferred contract costs	2	3	3	3	4
Administrative and other expenses	(89)	(126)	(203)	(330)	(435)	Total non-current assets	30	352	731	821	914
Selling and distribution expenses	(1)	(2)	4	6	8	Inventories	0	1	1	2	2
Listing expenses	(16)	(16)	0	0	0	Trade and other receivables	87	107	153	221	298
Operating profit	109	223	371	652	898	Deferred contract costs	9	5	4	4	3
Finance costs	(0)	(2)	(9)	(10)	(11)	Amounts due from fellow subsidiaries	176	64	45	27	14
Share of results of joint ventures	0	(2)	(5)	(2)	(1)	Amounts due from related parties	0	14	19	23	27
Share of results of associates	0	0	(1)	(0)	0	Amounts due from joint ventures	0	19	29	34	37
Profit before tax	108	219	356	639	886	Cash & cash equivalents	200	823	570	882	1,321
Income tax	(30)	(56)	(96)	(173)	(239)	Others	0	1	1	1	1
Profit after tax	78	163	260	467	647	Total current assets	473	1,034	823	1,193	1,702
Non-controlling interest	(0)	(1)	(8)	(40)	(45)	Total assets	503	1,386	1,554	2,015	2,617
Shareholders' profit / loss	78	162	252	427	602	Trade and other payables	226	298	387	494	631
Adjusted net profit	94	178	252	427	602	Contract liabilities	121	94	80	68	58
Basic EPS (RMB)	0.165	0.238	0.347	0.587	0.828	Amounts due to fellow subsidiaries	7	0	0	0	0
<b>Cash Flow Statement</b>						Amounts due to related parties	0	1	0	0	0
Year end 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F	Tax liabilities	21	30	29	27	26
Operating activities						Lease liabilities	0	3	3	4	4
Profit before tax	108	219	356	639	886	Bank borrowing	2	100	0	0	0
Depreciation and amortisation	4	12	19	28	32	Total current liabilities	376	526	499	593	718
Share of results of joint ventures	0	2	1	0	(0)	Deferred income tax liabilities	1	1	1	1	1
Impairment losses for trade receivables	1	4	4	5	6	Lease liabilities	0	13	13	14	15
Gain on deemed disposal of subsidiaries	0	(5)	(4)	(4)	(4)	Total non-current liabilities	1	14	14	15	16
Others	(6)	(21)	(1)	0	0	Total liabilities	377	540	513	608	734
Changes in working capital	197	1	(44)	(48)	(43)	Total shareholders' equity	126	845	1,032	1,357	1,788
Cash generated from operations	305	211	330	621	877	Minority interest	1	1	9	49	95
Income taxes paid	(81)	(41)	(96)	(173)	(239)	Total equity	126	846	1,041	1,407	1,883
Cash from operating activities	224	170	234	448	638	<b>Financial Ratios</b>					
Investing activities							2018A	2019A	2020F	2021F	2022F
Purchase of PPE	(10)	(19)	(23)	(20)	(19)	Revenue Growth (%)	41.9	45.6	66.6	64.2	32.7
Acquisition of a subsidiary	0	(0)	(280)	(10)	(5)	Gross Profit Growth (%)	40.6	61.5	63.9	73.7	36.4
Advance to fellow subsidiaries, net	(238)	(22)	(18)	(14)	(11)	Shareholders' Net Profit Growth (%)	12.0	107.9	55.1	69.3	41.1
Capital injection on joint ventures	0	(13)	(7)	(3)	(2)	Adjusted Shareholders' Net Profit Growth (%)	25.9	90.5	41.2	69.3	41.1
Interest received	0	5	6	7	8	Gross Margin (%)	33.7	37.4	36.8	39.0	40.0
Others	(1)	(192)	(14)	(3)	(3)	Operating Profit Margin (%)	17.5	24.8	24.7	26.5	27.5
Cash from investing activities	(249)	(241)	(336)	(44)	(32)	Shareholders' Net Margin (%)	12.6	18.0	16.8	17.3	18.4
Financing activities						Adjusted Net Margin (%)	15.1	19.8	16.8	17.3	18.4
New bank loans raised, net	2	99	(100)	0	0	Adjusted ROA (%)	17.4	18.9	17.1	23.9	26.0
Interest paid	0	(2)	(9)	(10)	(11)	Adjusted ROE (%)	79.3	36.8	26.8	35.7	38.3
Advance from fellow subsidiaries, net	(40)	19	21	16	13	Net Gearing	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Issue of shares, net	71	601	0	0	0	Current Ratio	1.3	2.0	1.7	2.0	2.4
Dividends paid to owners of the company	0	(40)	(65)	(101)	(171)						
Others	10	(2)	(1)	(1)	(1)						
Cash from financing activities	42	674	(154)	(95)	(169)						
Net changes in cash	17	604	(257)	310	437						
Cash at beginning of year	164	200	823	570	882						
Exchange losses	1	19	4	3	2						
Net cash from Panyu project	18	0	0	0	0						
Cash at end of year	200	823	570	882	1,321						

Source: the Company, Guotai Junan International.



### Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance > 15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance < -15%; or the fundamental outlook of the company or sector is unfavorable.

### Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance > 5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance < -5%; Or the fundamental outlook of the sector is unfavorable.

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