



## Company Report: A-Living (03319 HK)

公司报告: 雅生活服务 (03319 HK)

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# Lean Management of Multi-Brand Matrix to Accelerate Layout of Whole Industry Chain, Initiate with "Buy"

多品牌精耕细作，全产业加速布局，首予“买入”

- **The property management industry is anti-cyclical.** Property management companies (PMCs) were less affected by the COVID-19 pandemic. Value-added services (VAS) has gradually recovered as the pandemic has come under control. In addition, the property management industry is still in the early consolidation stage with high potential for the leading PMCs.
- **Fast expansion by virtue of Agile Group and Greenland Holdings, as well as M&A strategy.** After the acquisition of CMIG PM and New CMIG PM, A-Living has further entered the public buildings services arena, and has set up a full industry chain layout with 18 brands. The Company is expected to adopt a lean management strategy to enhance quality and create synergy. With projected abundant cash in the next few years (RMB4,882 mn as at 1H20), A-Living is also likely to resume M&A activity.
- **We expect total revenue and shareholders' net profit to grow at a CAGR of 46.4% and 34.1% in 2019-2022, respectively.** Driven by M&As, A-Living's GFA under management is expected to grow at a CAGR of 52.2% in 2019-2022. Gross margin is expected to be relatively lower compared with 2019 due to increasing proportion of public building services. Shareholders' net margin is expected to be 18.2%, 18.3% and 18.5% in 2020-2022, respectively.
- **We initiate our coverage on A-Living with a TP of HK\$48.00 per share and an investment rating of "Buy".** The target price represents 32.2x/23.5x/18.5x 2020-2022 PER.
- **物业管理行业具有抗周期性。**物业管理公司受新冠疫情的影响较小。随着疫情逐渐得到控制，增值服务也逐渐恢复。此外，物业管理行业仍处于整合初期，头部企业具有较高潜力。
- **凭借着雅居乐集团和绿地控股以及收并购策略，公司实现快速扩张。**在收购中民物业和新中民物业之后，雅生活进一步迈入公建服务赛道，并建立了拥有 18 个品牌的全产业链布局。预计公司将采用精细化管理策略来提高质量并获得协同效应。未来几年预计雅生活都拥有充足的现金（截至 2020 年上半年有 48.82 亿元人民币），有望恢复收并购策略。
- **我们预计公司的总收入和股东净利润在 2019-2022 年分别以 46.4%和 34.1%的复合增长率增长。**在收并购的推动下，雅生活的在管总建筑面积预计将在 2019-2022 年以 52.2%的复合增长率增长。由于公建类项目的比例增加，预计毛利率相比 2019 年将稳定在较低水平。预计 2020-2022 年股东净利率将分别为 18.2%、18.3%和 18.5%。
- **我们首次覆盖雅生活并给予每股 48.00 港元的目标价以及“买入”的投资评级。**目标价分别相当于 32.2 倍/23.5 倍/18.5 倍 2020-2022 年市盈率。

Rating:

**Buy**

Initial

评级:

买入 (首次覆盖)

6-18m TP 目标价:

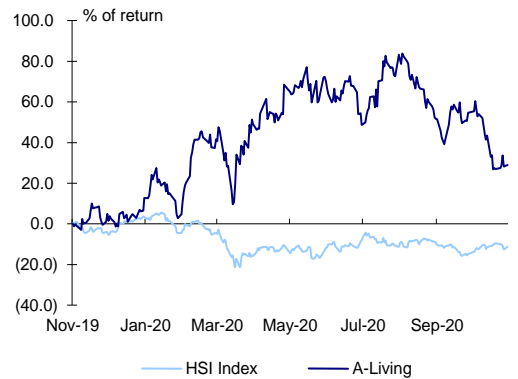
**HK\$48.00**

Share price 股价:

HK\$32.700

### Stock performance

股价表现



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 %	(16.6)	(25.3)	38.7
Rel. % to HS Index 相对恒指变动 %	(20.8)	(24.7)	48.5
Avg. Share price(HK\$) 平均股价 (港元)	35.4	39.1	36.0

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)	(Δ %)	(x)	(RMB)	(x)	(RMB)	(%)	(%)
2018A	3,377	801	0.618	77.6	46.5	4.182	6.9	0.300	1.0	23.2
2019A	5,127	1,231	0.923	49.4	31.7	4.643	6.3	0.450	1.6	21.2
2020F	9,392	1,709	1.282	38.9	21.9	5.572	5.0	0.615	2.2	25.1
2021F	12,789	2,340	1.755	36.9	16.0	6.789	4.1	0.702	2.5	28.4
2022F	16,080	2,967	2.225	26.8	12.6	8.391	3.4	0.779	2.8	29.3
Shares in issue (m) 总股数 (m)				1,333.3		Major shareholder 大股东		Agile Group Holdings Limited	54.0%	
Market cap. (HK\$ m) 市值 (HK\$ m)				43,598.9		Free float (%) 自由流通比率 (%)				46.0
3 month average vol. 3 个月平均成交股数 ('000)				4,417.3		FY20 Net gearing (%) FY20 净负债/股东资金 (%)				Net Cash
52 Weeks high/low (HK\$) 52 周高/低 (HK\$)				48.55 / 23.719		FY20 Est. NAV (HK\$) FY20 每股估值 (港元)				57.9

Source: the Company, Guotai Junan International.

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## Industry Overview

### Overview of the property management industry

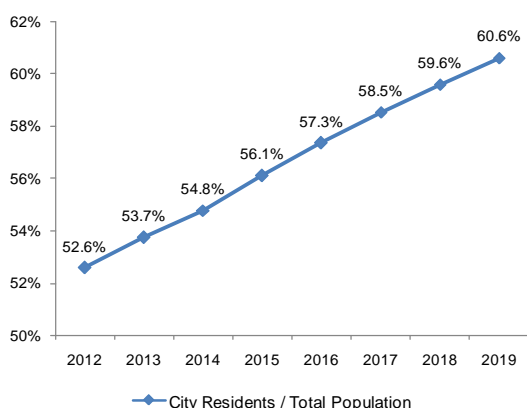
**The property management industry is labor intensive.** The specific services that PMCs offer include traditional property management services (e.g. security, cleaning, gardening, etc.) and value-added services (e.g. value-added services to property owners, early-stage value-added services to property developers, etc.). The daily operations of many property management services companies rely heavily on manual labor. According to China Index Academy (CIA), labor cost of the top 100 PMCs accounted for 53.4%, 55.8%, 57.8% and 59.1% of total cost of sales in 2016-2019, respectively. In recent years, the average wage level continued to increase in various regions in China. As a result, profit margin of many PMCs has been under downward pressure due to continued increase in labor costs.

**The lump-sum fee model is more common among the property management industry in China.** Property management fee may be charged either on a lump-sum basis or commission basis in China. According to CIA, the lump-sum fee model is the dominant fee model in the property management industry, especially for residential properties. The lump-sum fee model can increase efficiency by simplifying collective decision-making procedures for large expenditures by property owners and residents, and can incentivize PMCs to optimize operations and enhance profitability. In contrast, the commission fee model is increasingly adopted by management of non-residential property companies, which allows property owners to become more involved in the management of properties and to closely supervise service providers.

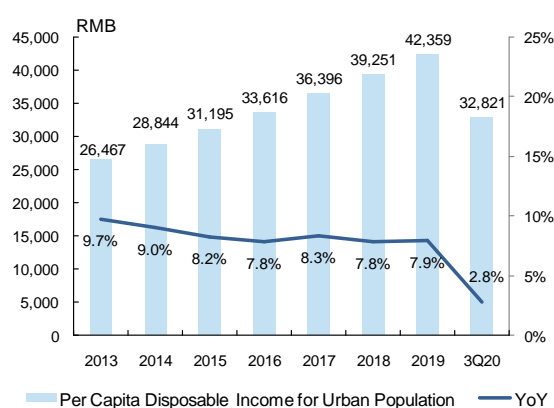
### Driving forces

**Rapid urbanization and rising per capita disposable income.** According to the National Bureau of Statistics of China, the urbanization rate in China increased from 34.8% in 1999 to 60.6% in 2019. Given the gap between China and high-income countries (2018: 81.3% according to the United Nations and the World Bank), we think there is still room for the urbanization rate to further increase in China and the property management industry will continue to grow in tandem with such rising level of urbanization. Moreover, according to the National Bureau of Statistics of China, China's rapid economic growth has spurred continuous growth in per capita disposable income for the urban population which increased to RMB42,359 in 2019, representing a CAGR of 8.1% since 2013. As of 3Q20, the per capita disposable income for urban population recorded an increase of 2.8% YoY, much lower than previous years and mainly due to the COVID-19 pandemic, but we expect the growth return to normal in the subsequent years. Consumers in China increasingly demand better living conditions and high-quality property management services, which is the underlying driver for growth of the PRC property management industry.

**Figure 1: Urbanization Rate in China**



**Figure 2: Per Capita Disposable Income in China**



Source: the National Bureau of Statistics of China, Guotai Junan International.

Source: the National Bureau of Statistics of China, Guotai Junan International.

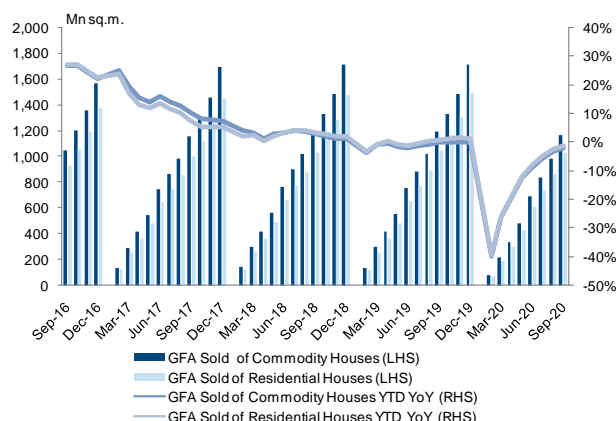
**Huge existing housing stock and fast-growing housing sales markets.** Alongside rapid urbanization and continuous growth in per capita disposable income, the supply of commodity properties also surged in China. According to the National Bureau of Statistics of China, the total GFA of commodity properties sold in China increased from 1.3 billion sq.m in 2015 to 1.7 billion sq.m in 2019 at a CAGR of 7.5%. In 2020, commodity housing sales GFA gradually recovered from the impact from the COVID-19 outbreak and dropped by 1.8% YoY as of September 2020, compared with -39.9% in February 2020. According to CIA, the total GFA under management in China increased from 17.5 billion sq.m in 2015 to 23.9 billion sq.m in 2019, representing a CAGR of

8.2%. We believe the market size is huge enough to provide solid fundamentals for the fast development of PMCs.

Figure 3: Cumulative House Sales Amount in China



Figure 4: Cumulative House Sales GFA in China



Source: the National Bureau of Statistics of China, Guotai Junan International.

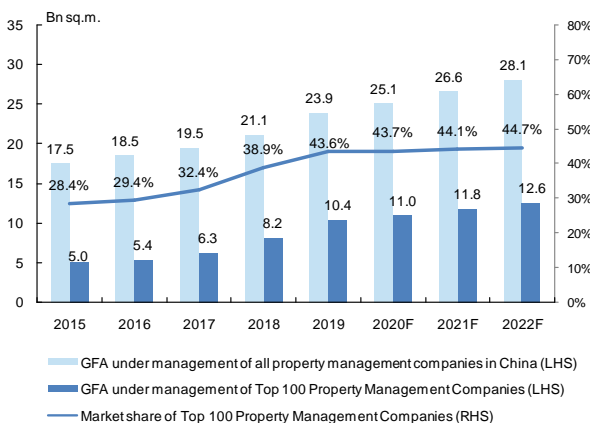
Source: the National Bureau of Statistics of China, Guotai Junan International.

**Favorable policies.** Issued policies mainly include 1) Provisions on Property Management (《物业管理条例》) in June 2003, which was marked as a milestone for regulatory framework, 2) the Circular of the NDRC on the Opinions of Relaxing Price Controls in Certain Services (《国家发展改革委关于放开部分服务价格意见的通知》) on 17 December 2014, which requires provincial level price administration authorities to abolish all price control or guidance policies on non-government-supported properties, 3) the Guiding Opinions of the General Office of the State Council on Accelerating the Development of the Resident Service Industry to Promote the Upgrading of Consumption Structure (《国务院办公厅关于加快发展生活性服务业促进消费结构升级的指导意见》), which aims to promote the standardization of the provision of property management services, and 4) the Guiding Opinions on Continuing the Evaluation of New Smart City Construction and Promoting the Healthy and Rapid Development of New Smart Cities (《关于促进智慧城市健康发展的指导意见》) in 2014, which provided directions for the future development of PMCs in China in terms of smart management and encouraged upgrades to traditional property management services through digitization and smart management. These laws and policies will continue to improve a supportive and orderly environment for the development of the industry and PMCs.

**Characteristics**

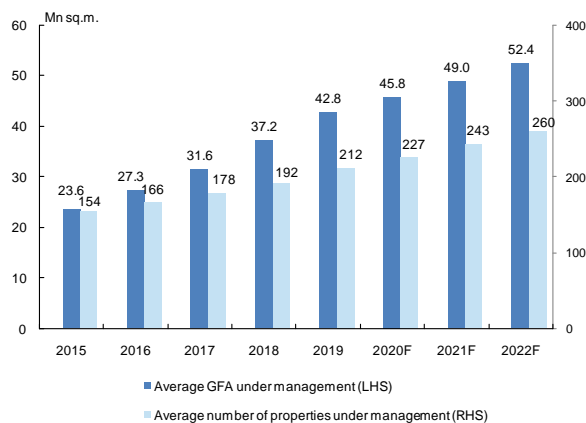
**The property management industry is still in its consolidation phase with increasing market concentration and high potential for leading PMCs.** According to CIA, average GFA under management of the top 100 PMCs increased from 23.62 mn sq.m in 2015 to 42.79 mn sq.m in 2019, representing a CAGR of 16.0%; market share of the top 100 PMCs increased from 28.4% in 2015 to 43.6% in 2019. With a scattered competition landscape that is far from saturation, we think that large-scale PMCs are gaining market share from a low base amid accelerated industry consolidation, primarily through organic growth and mergers and acquisitions.

Figure 5: Total GFA Under Management and Market Share of the Top 100 PMCs in China



Source: CIA, Guotai Junan International.

Figure 6: Average GFA Under Management and Average Number of Properties of the Top 100 PMCs in China



Source: CIA, Guotai Junan International.

**The property management industry is anti-cyclical by nature.** Compared to property developers, PMCs usually operate under a light-asset business model with very little external financing. Therefore, during economic upswings, earnings of PMCs appear to be stable depending on endogenous advantages; during economic downturns, the property management industry is less risky compared to many other industries. Dragged by the COVID-19 pandemic, many industries have ceased operations but PMCs have continued to provide services and charge management fees. Moreover, reliance on property management services by communities increased during the pandemic. Citizens were encouraged to purchase daily necessities through community group purchasing activities from home during self-quarantine periods. Thus, VAS such as community group purchases gained a greater customer base during the pandemic. Many PMCs cooperated closely with local governments during the pandemic, drawing great attention from the media. We believe that governments will further deepen cooperation with local PMCs in order to achieve higher levels of community governance.

## Company Overview

### Company introduction

**A-Living Services Co., Ltd. ("A-Living" or the "Company") is a leading comprehensive property management service provider focusing on mid- to high-end properties.** Founded in 1997 and officially listed on the Hong Kong Stock Exchange on 9 February 2018, A-Living has expanded business coverage into the entire industry chain, covering residential, commercial and public buildings, and various niche markets. The Company has formed 5 business segments with 18 property management brands. The Company also established mobile applications, including "A-Steward", "A-Business" and "A-Assistant", to realize a one-stop service platform. In addition, A-Living completed H share full circulation in July 2020, which is conducive to the alignment of interests and long-term development. As at 30 June 2020, the Company's total GFA under management amounted to approximately 353.4 mn sq.m. According to CIA, the Company was ranked 4<sup>th</sup> in the "2020 Top 100 Property Management Companies in China" list for 1H20.

Figure 7: A-Living's 5 Business Segments

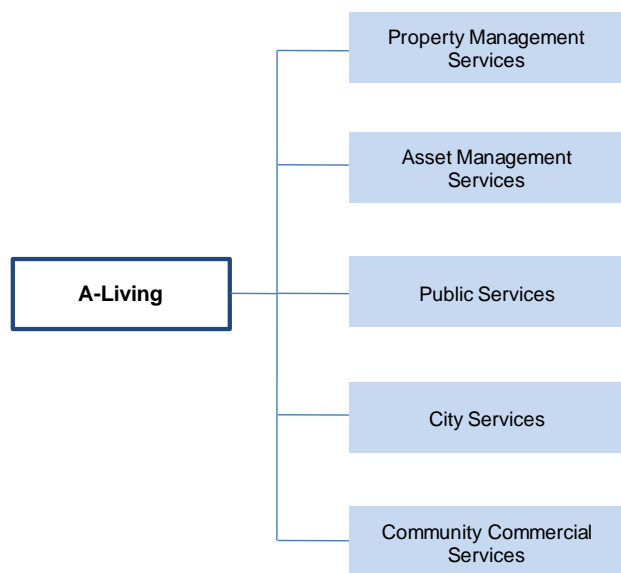


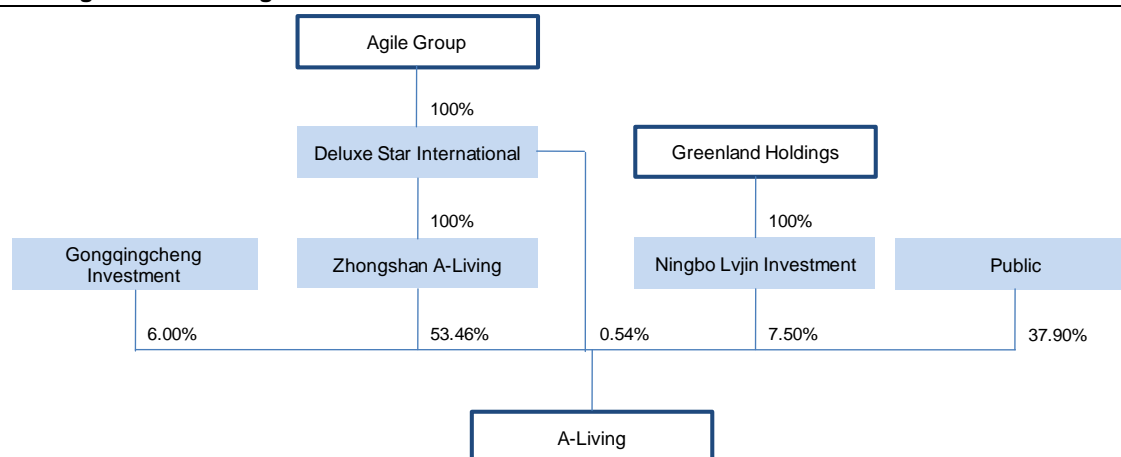
Figure 8: A-Living's 18 Property Management Brands



Source: the Company, Guotai Junan International.

Source: the Company, Guotai Junan International.

**A-Living is supported by Agile Group Holdings Limited ("Agile Group") and Greenland Holdings Group Company Limited and ("Greenland Holdings").** The Company acquired Greenland Property Services ("Greenland Services") in June 2017 and brought in Greenland Holdings as one of its strategic shareholders. According to China Real Estate Information Corp. (CRIC), Agile Group and Greenland Holdings were ranked 28<sup>th</sup> and 6<sup>th</sup>, respectively, in terms of contracted sales GFA during January and September 2020. The Company has entered an investment cooperation framework agreement with Greenland Holdings, in which Greenland Holdings promised to deliver 700 mn sq.m per annum and additional 3.0 mn sq.m with selection priority from 1 January 2018 to 31 December 2022. As at 30 June, GFA under management sourced from Agile Group and Greenland Holdings was approximately 57.0 mn sq.m and 10.0 mn sq.m, respectively, accounting for 16.1% and 2.8% of total GFA under management.

**Figure 9: A-Living's Shareholding Structure**


Source: the Company, Guotai Junan International.

Note: The corporate structure figure represents the Company's corporate structure as at 30 June 2020.

### **M&A strategy**

**M&As have accelerated A-Living's layout of the whole industry chain.** From 2017 to 2019, the Company successively acquired PMCs focusing on different niche markets. In particular, A-Living entered into equity transfer agreements to acquire 60% of CMIG Futurelife Property Management Ltd. ("CMIG PM") and Minrui Property Management (Shanghai) Co., Ltd. ("New CMIG PM") at the end of 2019. CMIG PM is a leading PM that specializes in property management services of public building. A-Living completed the acquisition of CMIG PM in 1H20, and is expected to consolidate New CMIG PM in 1H21 since Shanghai Kerui Property Management Development Co., Ltd. ("Kerui PM"), a company owned by New CMIG PM with 51% share, has fully settled its asset-backed securities borrowings as of 10 September 2020, which fulfilled the prerequisite of the equity transfer agreement. After the acquisition of CMIG PM and New CMIG PM, A-Living achieved layout of whole industry chain and nationwide geographic coverage.

**Synergy effects from multi-brand matrix by specialized post deal management.** With aggressive horizontal extension through M&As, A-Living is expected to endeavor to achieve vertically lean management of multi brands by better integration of acquired companies to enhance quality. The Company recently announced to establish a fifth segment, namely city services. We think that the Company will gain synergy from its multi-brand matrix and explore new growth drivers. In particular, with huge amount of cash of RMB4,882.0 mn after the acquisition of CMIG PM and New CMIG PM at the end of 1H20, A-Living is likely to resume its M&A strategy to further extend industrial chains in city services segments.

**Table 1: Major M&As and Industry Chain Layout**

Date	Company Acquired	Equity Interest (%)	Consideration (RMB mn)	Benefits and Niche Markets of Acquired Companies
2017.6	Greenland Services	100%	1,000.0	<ul style="list-style-type: none"> <li>➤ Strategic alliance of Greenland Holdings.</li> <li>➤ Super high-rise commercial buildings services.</li> </ul>
2018.4	Nanjing ZiZhu	51%	204.8	<ul style="list-style-type: none"> <li>➤ Expansion in the Yangtze River Delta region (YRD).</li> <li>➤ Residential and other (bank and museum) services.</li> </ul>
2018.7	Lanzhou Chengguan	51%	147.9	<ul style="list-style-type: none"> <li>➤ Expansion into northwest China.</li> <li>➤ Participation in mixed-ownership reform of SOEs.</li> </ul>
2018.8	Jingji Property Services	100%	10.5	<ul style="list-style-type: none"> <li>➤ High-end residential project services.</li> </ul>
2019.1	Qingdao Huaren	89.6643%	133.6	<ul style="list-style-type: none"> <li>➤ Expansion in Shandong region.</li> </ul>
2019.1	Harbin Jingyang	60%	113.9	<ul style="list-style-type: none"> <li>➤ Complementary geographic coverage in Heilongjiang Province.</li> </ul>
2019.3	Guangzhou Yuehua	51%	195.3	<ul style="list-style-type: none"> <li>➤ Horizontal breakthroughs into the public building property management markets in south China.</li> </ul>
2019.9	CMIG PM	60%	Fixed: 1,560.0	<ul style="list-style-type: none"> <li>➤ Leapfrog growth in scale and whole industry chain layout.</li> <li>➤ Public buildings.</li> </ul>
2019.12	New CMIG PM (Kerui PM)	60%	Variable: ≤ 500.0	<ul style="list-style-type: none"> <li>➤ Leading comprehensive property management enterprise in Shanghai.</li> </ul>

Source: the Company, Guotai Junan International.

## Business Overview

A-Living derived revenue from three major business lines: 1) property management services, 2) property owners value-added services and 3) extended value-added services.

### Property management services

**A-Living's property management services have gone through fast growth.** The Company's property management services include security, cleaning, greening, gardening, repair and maintenance. As of 1H20, the Company's total GFA under management reached 353.4 mn sq.m, representing an increase of 100.1% compared to 176.6 mn sq.m as at 31 December 2019. If including the GFA under management of consultant projects and its associates, the Company's total GFA under management exceeded 500 mn sq.m. The surge in the Company's GFA under management was mainly attributable to 1) organic growth from Agile Group and Greenland Holdings, with newly increased GFA of 3.2 mn sq.m and 1.4 mn sq.m, respectively, 2) M&A of CMIG PM, which provided GFA under management of 158.9 mn sq.m, and 3) other third-party expansion, with GFA under management of 13.3 mn sq.m. Based on the Company's aggressive M&A strategy and abundant cash, we expect A-Living's GFA under management, excluding the proportion from the consultant projects and the Company's associates, to reach 622.5 mn sq.m in 2022, or at a CAGR of 52.2% in 2019-2022.

**Table 2: Key Operation Data in 2017-2022**

'000 Sq.m.	2017A	2018A	2019A	1H20	2020F	2021F	2022F	CAGR 2019-2022
<b>GFA under management</b>								
- Sourced from Agile Group	42,189	48,192	53,826	57,014	60,285	66,314	72,282	10.3%
- Sourced from Greenland Holdings	2,684	4,728	8,558	9,999	13,693	20,539	26,701	46.1%
- Sourced from third-party PMCs <sup>(1)</sup>	33,462	85,200	114,178	286,344	319,698	418,805	523,506	66.1%
<b>Total</b>	<b>78,335</b>	<b>138,120</b>	<b>176,562</b>	<b>353,357</b>	<b>393,676</b>	<b>505,658</b>	<b>622,489</b>	<b>52.2%</b>
<b>Contracted GFA</b>								
- Sourced from Agile Group	58,677	70,371	77,053	78,110	80,906	84,142	86,666	4.0%
- Sourced from Greenland Holdings	9,335	22,026	40,076	48,370	50,095	60,114	69,131	19.9%
- Sourced from third-party PMCs	58,089	137,402	181,684	364,821	417,873	543,235	608,423	49.6%
<b>Total</b>	<b>126,101</b>	<b>229,799</b>	<b>298,813</b>	<b>491,301</b>	<b>548,874</b>	<b>687,491</b>	<b>764,221</b>	<b>36.8%</b>

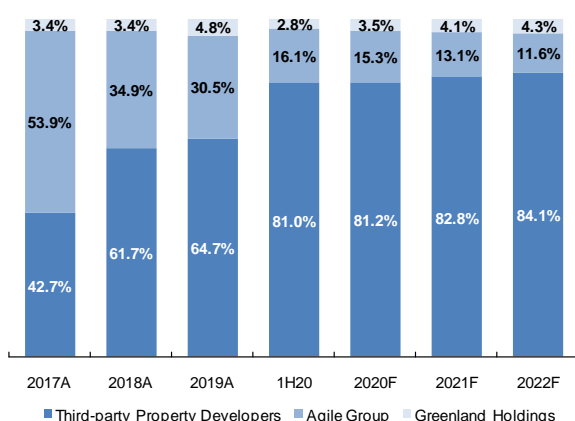
Source: the Company, Guotai Junan International.

Note: (1) The GFA under management sourced from third parties in 2019-2022 includes the GFA under management provided by the Company and third-party property developers through property management contracts or contributed by the projects from acquired companies, but excludes the GFA under management from the consultant projects and the Company's associates.

**We expect the proportion of GFA under management sourced from third parties to increase in 2020-2022.** With strong contracted sales GFA of Greenland Holdings, namely 24.4 mn sq.m, 36.6 mn sq.m, 32.6 mn sq.m and 10.3 mn sq.m in 2017, 2018, 2019, 1H20, respectively, and stronger bargaining power of A-Living, we think that the Company will take over more GFA from Greenland Holdings. In addition, we expect rising GFA under management sourced from Agile Group backed by Agile Group's steady contracted sales, but a decreasing trend in terms of the proportion. This is due to leapfrog growth of GFA under management sourced from third-party developers, which increased from 42.7% in 2017 to 64.7% in 2019, and jumped to 81.0% in 1H20 after the acquisition of CMIG PM. We expect the proportion of GFA under management from third-party property developers to be 81.2%, 82.8% and 84.1% in 2020-2022, respectively.

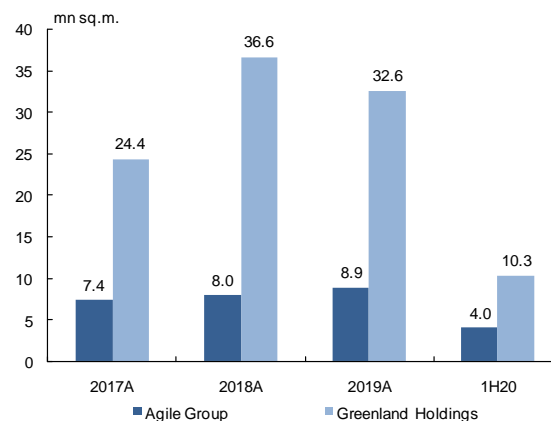
**Continuous development of public buildings services has further optimized A-Living's portfolio.** With M&As and organic expansion in public buildings services in 1H20, the Company acquired more than 10 projects with ten-million-yuan scale, ranging from police offices and hospitals, to industrial parks. The Company's GFA under management of public buildings accounted for 44.4%, higher than 35.1% in 2019. Public buildings services is considered to have high barriers to entry and high renewal rate, and is expected to provide stable cash flows for A-Living in subsequent years. With more diversified pipelines, the Company is likely to become more defensive and gain synergy effects.

Figure 10: A-Living's GFA Under Management Breakdown by Different Sources



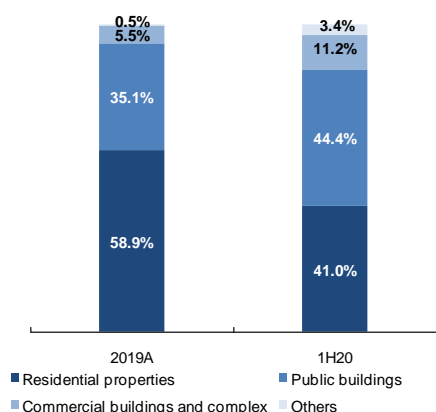
Source: the Company, Guotai Junan International.

Figure 11: Contracted Sales GFA of Agile Group and Greenland Holdings



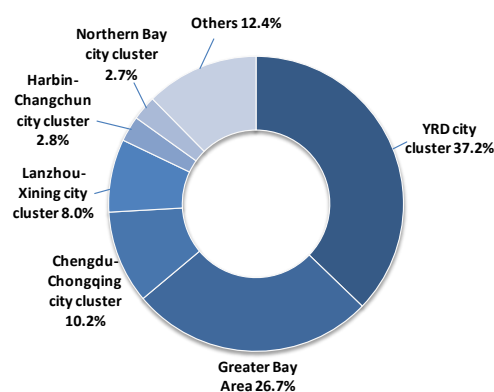
Source: Agile Group, Greenland Holdings, Guotai Junan International.

Figure 12: A-Living's GFA Under Management Breakdown by Business Portfolio



Source: the Company, Guotai Junan International.

Figure 13: A-Living's GFA Under Management Breakdown by Geographical Coverage as of 1H20



Source: the Company, Guotai Junan International.

### Value-added services to property owners

**Huge potentials for the Company's living and comprehensive services.** A-Living's property owners VASs include 1) living and comprehensive services, including property maintenance, housekeeping, community-based group purchasing, special value-added services for public buildings, such as catering and transit services and comprehensive consulting services; 2) community asset management, including club house operation services, property lease services, community-based advertising, parking lot management services, community asset operations and second-hand property agency services; and 3) home improvement services, which is turnkey furnishing services. Revenue from property owners VAS accounted for 8.6%, 9.5% and 10.6% in 2018, 2019 and 1H20 of total revenue. In particular, revenue from living and comprehensive services recorded RMB270.1 mn, representing an increase of 270% YoY. The Company has cooperated with JD Alliance and Vinda Group in 1H20, and connected A-Steward to JD Mall, to explore community new retail. Thus, we expect the proportion of revenue from value-added services to property owners to be 10.3%, 11.4% and 12.7% in 2020-2022, respectively.

### Extended value-added services

**A-Living's extended VAS primarily includes 1) sales center property management services and 2) other extended value added services for property developers.** Revenue from extended VAS accounted for 43.3%, 35.3% and 24.0% in 2018, 2019, and 1H20, respectively, of total revenue. With rapid growth in other business lines, we expect the proportion of revenue from extended value-added services to be in a downward trend, with 24.7%, 21.4% and 19.6% in 2020-2022, respectively.

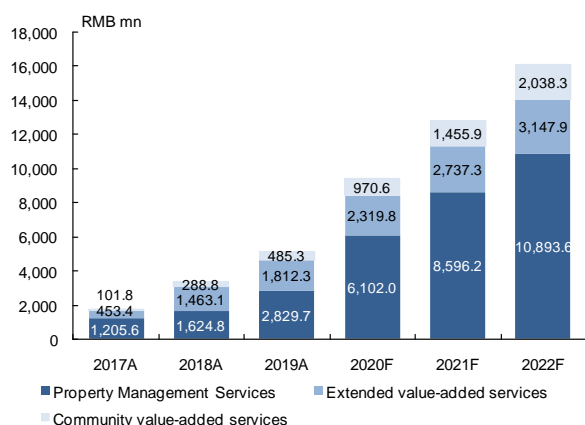


## Financial Analysis

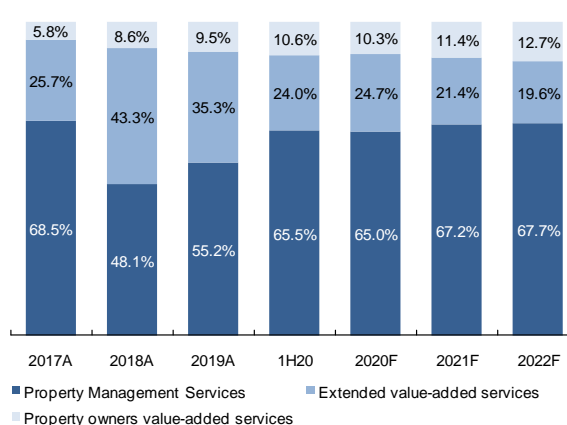
We expect A-Living's revenue to surge from RMB5,127.3 mn in 2019 to RMB16,079.8 mn in 2022, representing a CAGR of 46.4% during 2019-2022. In 1H20, the Company recorded total revenue of RMB4,001.6 mn, representing an increase of 78.5% YoY, mainly due to the consolidation of CMIG PM, which contributed revenue of RMB1,112.3 mn. If excluding the influence of CMIG PM, the Company's revenue recorded an increase of 28.9% YoY. Revenue derived from property management services was RMB2,619.6 mn in 1H20, constituting the largest part with 65.5% of total revenue. Based on our prediction of fast growth of GFA under management of A-Living, we expect revenue derived from property management services to increase at a CAGR of 56.7% during 2019-2022. Revenue derived from extended VAS recorded RMB959.3 mn in 1H20, and is expected to increase at a CAGR of 20.2% during 2019-2022 with the COVID-19 pandemic gradually coming under control and housing sales having recovered. Revenue derived from property owners VAS was RMB422.7 mn in 1H20, and is expected to increase at a CAGR of 61.3% during 2019-2022, backed by booming living and comprehensive services and the Company's fast growing GFA under management. Overall, with A-Living's aggressive expansion ability, we expect the Company's total revenue to be RMB9,392.4 mn, RMB12,789.4 mn and RMB16,079.8 mn in 2020-2022, respectively.

3 November 2020

**Figure 14: A-Living's Revenue by Segment**



**Figure 15: A-Living's Revenue Breakdown**



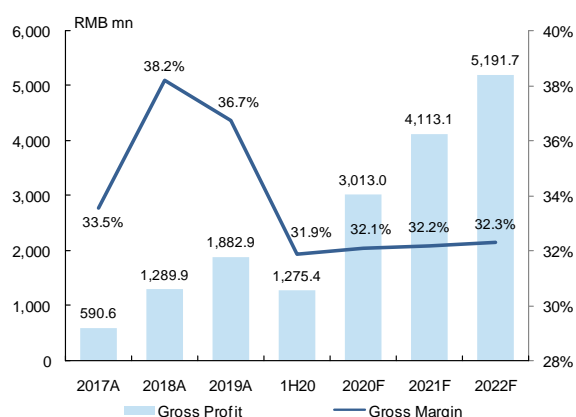
Source: the Company, Guotai Junan International.

Source: the Company, Guotai Junan International.

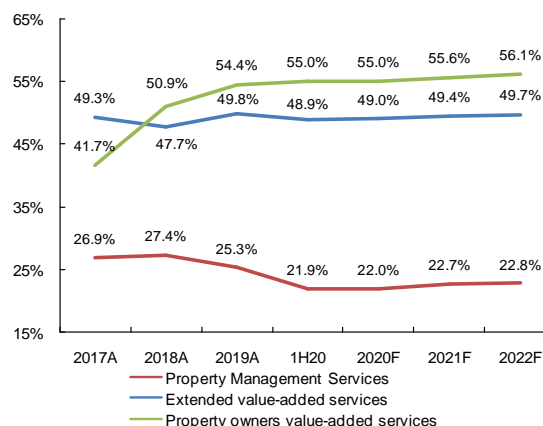
We expect A-Living's overall gross profit margin to be 32.1%, 32.2% and 32.3% in 2020-2022, respectively. In 1H20, the Company's gross profit increased by 53.8% YoY to RMB1,275.4 mn but overall gross margin decreased by 5.1 pts YoY to 31.9%, mainly dragged by the segment gross margin of property management services, which was down by 4.6 pts YoY to 21.9%. The decline in gross margin of property management services was mainly attributable to 1) amortization of intangible assets as a result of acquisition of CMIG PM, and 2) CMIG PM was specialized in public buildings, of which the gross margin was lower than residential portfolios by nature. We expect lean management after M&As and technology empowerment will enhance efficiency and thus expect gross margin of property management services to increase to 22.8% in 2022. Gross margin of extended VAS slightly decreased by 0.3 pts YoY to 48.9% in 1H20, mainly due to the extra disinfection services caused by the COVID-19 pandemic. As the local epidemic was gradually come under control, we expect gross margin of extended VAS and property owners VAS to record steady growth and to reach 49.7% and 56.1% in 2022, respectively.

A-Living 雅生活服务 (03319 HK)

**Figure 16: A-Living's Total Gross Profit and GPM**



**Figure 17: A-Living's Segment Gross Margin**



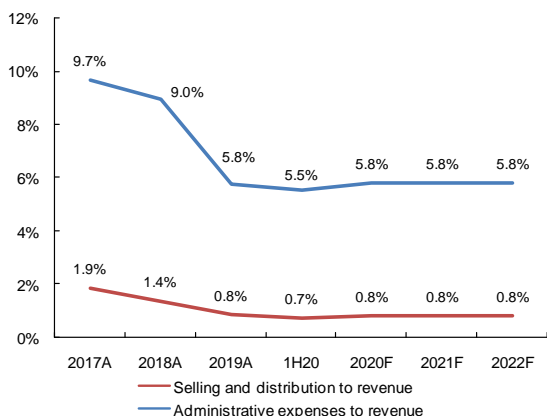
Source: the Company, Guotai Junan International.

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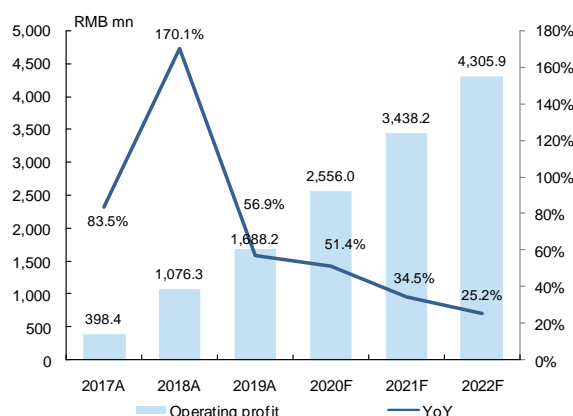
Company Report

**We expect operating expense to revenue to remain stable at 6.6% in 2020-2022.** The Company's selling and distribution to revenue decreased from 0.8% in 2019 to 0.7% in 1H20, mainly due to the decline in marketing expenses as a result of the COVID-19 pandemic. Administrative expenses to revenue declined by 0.3 ppts from 5.8% in 2019 to 5.5% in 1H20, due to effective cost control. With work resumption and the Company's continuous expansion, we expect selling and distribution to revenue and administrative expenses to revenue to be maintained at 0.8% and 5.8%, respectively. As a result, the Company's operating profit is expected to increase from RMB1,688.2 mn in 2019 to RMB4,305.9 mn in 2022.

**Figure 18: A-Living's Operating Expense Ratio**



**Figure 19: A-Living's Operating Profit and YoY Growth**



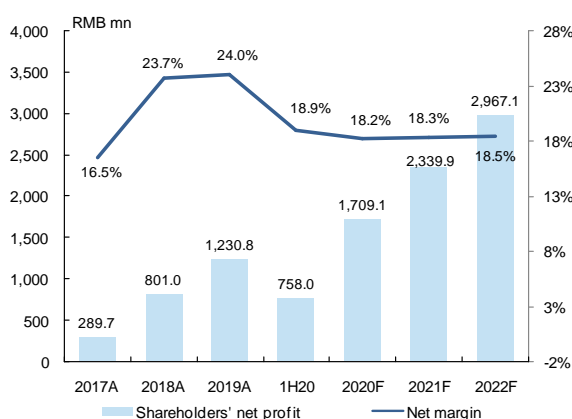
Source: the Company, Guotai Junan International.

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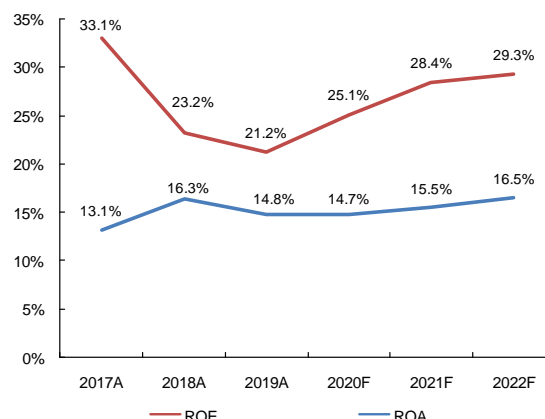
**We expect the Company to maintain at a net cash position in 2020-2022.** As at 1H20, the Company had a total debt of RMB354.7 mn, which is expected to be gradually repaid in subsequent years. Benefiting from the capital raised through the listing, the Company's cash position surged in 2018, and as of 1H20, the Company had a cash amount of RMB4,882.0 mn, which is sufficient for the Company's operations as well as restarting M&A. We expect the Company's cash amount to be maintained at a high level in 2020-2022, driven by its rising revenue and lean management strategy which focused on stringent cash collection. As a result, we expect the net gearing ratio of the Company to be net cash in 2020-2022.

**We expect A-Living's shareholders' net profit to increase from RMB1,230.8 mn in 2019 to RMB2,967.1 mn in 2022, representing a CAGR of 34.1% during 2019-2022.** We expect the Company's shareholders' net profit to increase amid the Company's business expansion. In 1H20, the Company's shareholders' net profit increased by 40.0% YoY to RMB758.0 mn as a result of the M&A of CMIG PM and rapid organic growth. The Shareholders' net margin recorded 18.9% in 1H20, representing a decrease of 5.1 ppts compared with 24.0% in 2019. The decline was due to business portfolio optimization by increasing the proportion of public building services, and we expect the Company's shareholders' net margin to be 18.2%, 18.3% and 18.5% in 2020-2022, respectively. As such, the Company's EPS is expected to be RMB1.282, RMB1.755 and RMB2.225 in 2020-2022, respectively. In addition, the Company declared a dividend payout ratio of 48.7% in 2019. Given the Company's surging shareholders' net profit, we expect rising dividends but a downward trend of dividend payout ratio during 2020-2022 of 48%, 40.0% and 35%, respectively.

**Figure 20: A-Living's Shareholders' Net Profit and Shareholders' Net Margin**



**Figure 21: A-Living's ROE and ROA**



Source: the Company, Guotai Junan International.

Source: the Company, Guotai Junan International.

## Valuation

We initiate A-Living with a target price of HK\$48.00 and investment rating of "Buy". We deem the property management industry highly defensive and less affected by the COVID-19 pandemic, and the market is still in the early consolidation stage. After the acquisition of CMIG PM and New CMIG PM, A-Living has extended to the public buildings arena, and has set up a full industry chain layout. Alongside rapid expansion by aggressive M&A strategy, the Company is expected to enhance quality by lean management of multi-brand matrix, and gain synergy from optimization of diversified portfolio. We are positive about the Company's future development (especially in city services), given its 1) genetic excellence by virtue of Agile Group and Greenland Holdings and 2) further expansion through M&A strategy with abundant cash. Thus, based on our aggressive earnings forecast, we think A-Living is worth a valuation premium. We set our target price to HK\$48.00, representing a 17.1% discount to its 2020E NAV of HK\$57.91 per share and 32.2x/ 23.5x/ 18.5x 2020-2022 PER, respectively. We set A-Living's investment rating as "Buy".

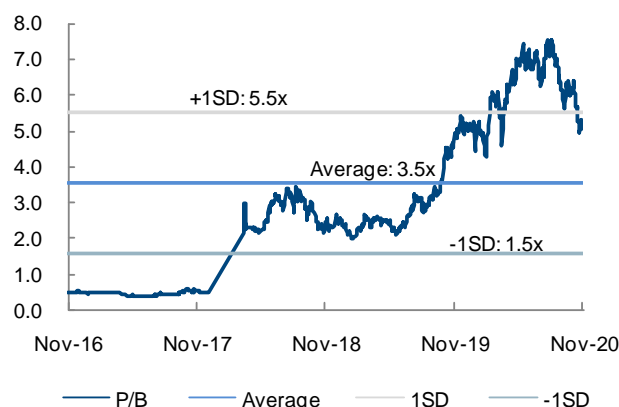
**Table 3: A-Living's DCF Valuation Table**

WACC Calculation		DCF Calculation (HK\$ mn)																																														
Risk-free rate	0.69%	PV of FCFE				34,204																																										
Market risk premium	9.44%	PV of Terminal Value				37,604																																										
Beta	1.10	Net (Debt)/Cash				5,408																																										
<b>Cost of equity</b>	<b>11.1%</b>	<b>NAV</b>				<b>77,216</b>																																										
		<b>NAV per share (HK\$)</b>				<b>57.91</b>																																										
Cost of debt	5.0%	<table border="1"> <thead> <tr> <th rowspan="2">Sensitivity Analysis for NAV (HK\$ mn)</th> <th colspan="5">Perpetual growth rate</th> </tr> <tr> <th>1.0%</th> <th>1.5%</th> <th>2.0%</th> <th>2.5%</th> <th>3.0%</th> </tr> </thead> <tbody> <tr> <td>8.3%</td> <td>95,097</td> <td>99,149</td> <td>103,838</td> <td>109,329</td> <td>115,846</td> </tr> <tr> <td>9.3%</td> <td>82,577</td> <td>85,416</td> <td>88,641</td> <td>92,336</td> <td>96,614</td> </tr> <tr> <td><b>WACC</b></td> <td><b>10.3%</b></td> <td><b>72,864</b></td> <td><b>74,917</b></td> <td><b>77,216</b></td> <td><b>79,807</b></td> <td><b>82,751</b></td> </tr> <tr> <td>11.3%</td> <td>65,132</td> <td>66,654</td> <td>68,339</td> <td>70,215</td> <td>72,315</td> </tr> <tr> <td>12.3%</td> <td>58,846</td> <td>59,998</td> <td>61,262</td> <td>62,654</td> <td>64,196</td> </tr> </tbody> </table>					Sensitivity Analysis for NAV (HK\$ mn)	Perpetual growth rate					1.0%	1.5%	2.0%	2.5%	3.0%	8.3%	95,097	99,149	103,838	109,329	115,846	9.3%	82,577	85,416	88,641	92,336	96,614	<b>WACC</b>	<b>10.3%</b>	<b>72,864</b>	<b>74,917</b>	<b>77,216</b>	<b>79,807</b>	<b>82,751</b>	11.3%	65,132	66,654	68,339	70,215	72,315	12.3%	58,846	59,998	61,262	62,654	64,196
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Effective tax rate	23.5%																																															
<b>After tax cost of debt</b>	<b>3.8%</b>																																															
E/(E+D)	90.0%																																															
<b>WACC</b>	<b>10.3%</b>																																															
Perpetual growth rate	2.0%																																															
Assume RMB/HK\$	0.86																																															

Source: the Company, Guotai Junan International.

**Figure 22: A-Living's P/E Ratio**


Source: Bloomberg, Guotai Junan International.

**Figure 23: A-Living's P/B Ratio**


Source: Bloomberg, Guotai Junan International.

**Table 4: Peers Comparison**

Company	Stock Code	Currency	Last Price (HK\$)	Mkt Cap (HK\$m)	PE (fiscal year)				PB (fiscal year)				ROE (%)		D/Y (%)	
					2019A	2020F	2021F	2022F	2019A	2020F	2021F	2022F	2020F	2020F	2020F	2020F
Country Garden Services Hold	6098 HK	HKD	46.850	129,277	65.8	44.9	31.5	23.2	21.1	14.7	10.9	8.0	35.7	0.6		
A-Living Services Co Ltd-H	3319 HK	HKD	32.700	43,600	31.3	21.7	16.4	13.0	6.3	5.1	4.3	3.6	25.0	1.9		
Shimao Services Holdings Ltd	873 HK	HKD	16.500	38,824	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
Poly Property Services Co Lt	6049 HK	HKD	55.000	30,433	40.1	36.7	27.1	20.3	5.2	4.6	4.1	3.6	12.9	0.8		
Greentown Service Group Co L	2869 HK	HKD	8.580	27,608	44.5	34.0	26.5	20.8	7.8	4.6	4.1	3.6	16.0	1.2		
Ever Sunshine Lifestyle Serv	1995 HK	HKD	13.640	22,784	82.5	49.4	32.1	21.5	16.3	9.5	7.8	6.3	21.3	0.7		
China Overseas Property Hold	2669 HK	HKD	5.490	18,045	33.6	26.8	20.9	16.2	11.9	8.9	6.7	5.2	36.0	1.1		
S-Enjoy Service Group Co Ltd	1755 HK	HKD	18.280	14,987	47.4	29.7	19.7	13.5	14.5	10.2	7.7	6.0	37.5	1.7		
Kwg Living Group Holdings Lt	3913 HK	HKD	5.970	12,046	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
Powerlong Commercial Managem	9909 HK	HKD	20.350	12,648	40.8	37.0	25.6	19.0	6.9	5.7	4.9	4.2	15.6	1.4		
Excellence Commercial Proper	6989 HK	HKD	10.760	12,912	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
Central China New Life Ltd	9983 HK	HKD	6.940	8,640	n.a.	18.7	13.0	9.6	n.a.	3.0	2.6	2.2	24.5	1.4		
Times Neighborhood Holdings	9928 HK	HKD	7.740	7,629	52.5	27.8	16.1	9.0	7.0	4.4	3.6	2.1	19.3	1.0		
Sichuan Languang Justbon -H	2606 HK	HKD	35.650	6,349	10.1	9.4	7.1	5.4	2.6	2.1	1.7	1.4	24.0	4.1		
Colour Life Services Group	1778 HK	HKD	3.810	5,543	9.2	8.5	7.9	7.2	1.3	1.1	1.0	0.9	13.4	3.1		
Zhenro Services Group Ltd	6958 HK	HKD	4.680	4,856	n.a.	20.2	14.2	9.9	n.a.	n.a.	n.a.	n.a.	22.7	1.5		
Aoyuan Healthy Life Group Co	3662 HK	HKD	5.100	3,704	18.9	13.1	8.5	6.7	3.9	3.1	2.4	1.9	26.3	3.0		
Binjiang Service Group Co Lt	3316 HK	HKD	13.760	3,803	27.6	17.6	14.5	11.7	4.7	n.a.	n.a.	n.a.	24.5	2.9		
Kaisa Prosperity Holdings Lt	2168 HK	HKD	21.350	3,288	16.1	12.5	9.1	6.6	4.0	2.4	2.1	1.8	26.4	3.2		
Financial Street Property -H	1502 HK	HKD	7.360	2,749	16.6	17.6	13.6	10.0	n.a.	n.a.	n.a.	n.a.	19.2	1.7		
Redsun Services Group Ltd	1971 HK	HKD	5.220	2,166	n.a.	21.4	12.9	9.0	n.a.	2.9	2.7	2.2	12.6	1.5		
Yincheng Life Service Co Ltd	1922 HK	HKD	6.000	1,603	33.1	n.a.	n.a.	n.a.	11.7	n.a.	n.a.	n.a.	n.a.	n.a.		
First Service Holding Ltd	2107 HK	HKD	1.390	1,390	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
Xinyuan Property Management	1895 HK	HKD	2.440	1,341	9.9	n.a.	n.a.	n.a.	1.4	n.a.	n.a.	n.a.	n.a.	n.a.		
Hevol Services Group Co Ltd	6093 HK	HKD	2.020	970	44.9	n.a.	n.a.	n.a.	4.4	n.a.	n.a.	n.a.	n.a.	n.a.		
Riverine China Holdings Ltd	1417 HK	HKD	2.230	903	49.1	1.5	1.2	1.0	3.5	0.2	0.2	0.2	17.4	n.a.		
Zhong Ao Home Group Ltd	1538 HK	HKD	0.790	675	5.2	4.5	3.6	n.a.	0.9	0.7	0.5	n.a.	n.a.	4.0		
Clifford Modern Living Holdi	3686 HK	HKD	0.550	558	5.2	n.a.	n.a.	n.a.	1.3	n.a.	n.a.	n.a.	n.a.	n.a.		
Xingye Wulian Service Group	9916 HK	HKD	1.320	528	9.7	n.a.	n.a.	n.a.	3.1	n.a.	n.a.	n.a.	n.a.	n.a.		
Ye Xing Holdings Ltd	1941 HK	HKD	1.100	446	10.3	n.a.	n.a.	n.a.	5.2	n.a.	n.a.	n.a.	n.a.	n.a.		
<b>Simple Average</b>					<b>30.6</b>	<b>22.7</b>	<b>16.1</b>	<b>12.3</b>	<b>6.6</b>	<b>4.9</b>	<b>4.0</b>	<b>3.3</b>	<b>22.6</b>	<b>1.9</b>		
<b>Weighted Average</b>					<b>40.4</b>	<b>28.9</b>	<b>20.6</b>	<b>15.2</b>	<b>10.5</b>	<b>7.4</b>	<b>5.7</b>	<b>4.4</b>	<b>22.6</b>	<b>1.0</b>		

Source: Bloomberg, Guotai Junan International.

**Financial Statements and Ratios**

Income Statement					
Year End 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Total revenue	3,377	5,127	9,392	12,789	16,080
- Property management services	1,625	2,830	6,102	8,596	10,894
- Extended value-added services	1,463	1,812	2,320	2,737	3,148
- Property owners value-added services	289	485	971	1,456	2,038
Cost of sales	(2,087)	(3,244)	(6,379)	(8,676)	(10,888)
Gross profit	1,290	1,883	3,013	4,113	5,192
Selling and distribution expenses	(46)	(43)	(75)	(102)	(129)
Administrative expenses	(302)	(295)	(545)	(742)	(933)
Fair value gains of financial assets	3	(12)	(27)	(30)	(33)
Other income and gains	100	131	165	173	182
Other income - net	31	24	25	26	26
Operating profit	1,076	1,688	2,556	3,438	4,306
Finance costs	(1)	(16)	(34)	(41)	(50)
Share of results of JVs and associates	0	23	29	31	33
Profit before tax	1,075	1,694	2,550	3,429	4,289
Income tax	(264)	(403)	(599)	(823)	(1,029)
Profit after tax	811	1,292	1,951	2,606	3,260
Non-controlling interest	(10)	(61)	(242)	(266)	(293)
Shareholders' profit / loss	801	1,231	1,709	2,340	2,967
Basic EPS (RMB\$/share)	0.618	0.923	1.282	1.755	2.225

Cash Flow Statement					
Year End 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
Operating activities					
Profit before income tax	1,075	1,694	2,550	3,429	4,289
Finance costs - net	1	16	34	41	50
D&A	33	90	137	192	227
Fair value gains on financial assets	0	(18)	27	30	33
Others	(32)	(5)	286	(194)	(190)
Changes in working capital:	(51)	138	(326)	(10)	(273)
Net cash from operations	1,026	1,915	2,709	3,487	4,136
Taxes paid	(143)	(315)	(539)	(741)	(927)
Cash from operating activities	883	1,600	2,170	2,747	3,209
Investing activities					
Acquisition of subsidiaries	(116)	(320)	(1,476)	(664)	(731)
Purchases of PPE	(19)	(15)	(28)	(32)	(32)
Net of financial assets at FVPL	0	(425)	134	(61)	(74)
Investments in JV and associates	0	(574)	(137)	(193)	(231)
Advance to related parties	13	0	(110)	(165)	(247)
Other investing cash flow	10	(442)	642	78	75
Cash from investing activities	(112)	(1,775)	(976)	(1,037)	(1,240)
Financing activities					
Proceeds from issue of ordinary shares	3,313	0	0	0	0
Net of borrowings	(12)	(27)	71	(15)	(12)
Dividends paid to shareholders	(50)	(400)	(600)	(820)	(936)
Others	(109)	0	43	(86)	12
Cash from financing activities	3,142	(426)	(487)	(921)	(936)
Net changes in cash	3,913	(601)	707	788	1,033
Cash at beginning of year	880	4,808	4,207	4,914	5,703
Exchange losses	15	1	0	0	0
Cash at end of year	4,808	4,207	4,914	5,703	6,736

Source: the Company, Guotai Junan International.

Balance Sheet					
Year End 31 Dec (RMB m)	2018A	2019A	2020F	2021F	2022F
PPE	80	159	279	332	385
Intangible assets	166	384	1,107	1,328	1,594
Goodwill	1,045	1,371	2,346	2,816	3,379
Deferred income tax assets	16	10	42	51	64
Investment using the equity method	0	584	963	1,156	1,387
Other non-current assets	0	56	124	149	179
Total non-current assets	1,308	2,564	4,861	5,832	6,987
Inventories	15	12	19	23	29
Receivables and prepayments	1,165	2,158	3,713	4,489	5,406
Financial assets at FVPL	0	440	306	368	441
Restricted cash	1	5	28	30	31
Cash & cash equivalents	4,808	4,207	4,914	5,703	6,736
Total current assets	5,989	6,824	8,981	10,612	12,643
Total assets	7,297	9,388	13,842	16,444	19,630
Trade and other payables	1,169	1,738	3,553	3,905	4,287
Contract liability	365	614	957	1,053	1,158
Current income tax liabilities	192	310	470	639	804
Borrowings	0	16	216	173	138
Lease liabilities	0	12	43	45	47
Total current liabilities	1,726	2,690	5,239	5,815	6,434
Borrowings	0	5	76	61	49
Payables	24	19	55	67	80
Deferred income tax liabilities	37	84	376	512	643
Lease liabilities & financial liabilities	0	84	110	115	121
Total non-current liabilities	60	192	617	754	893
Total liabilities	1,787	2,882	5,855	6,569	7,327
Total shareholders' equity	5,422	6,191	7,430	9,052	11,188
Minority interest	88	315	557	823	1,116
Total equity	5,510	6,506	7,987	9,875	12,304

Financial Ratios					
	2018A	2019A	2020F	2021F	2022F
Revenue Growth (%)	91.8	51.8	83.2	36.2	25.7
Gross Profit Growth (%)	118.4	46.0	60.0	36.5	26.2
Shareholders' Net Profit Growth (%)	176.5	53.6	38.9	36.9	26.8
Gross Margin (%)	38.2	36.7	32.1	32.2	32.3
Operating Profit Margin (%)	31.9	32.9	27.2	26.9	26.8
Reported Net Margin (%)	23.7	24.0	18.2	18.3	18.5
ROE (%)	23.2	21.2	25.1	28.4	29.3
ROA (%)	16.3	14.8	14.7	15.5	16.5
Total Liabilities/Total Assets (%)	24.5	30.7	42.3	40.0	37.3
Net Gearing Ratio (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Average trade receivables days	89.3	118.3	108.9	108.6	104.3
Average trade payables days	114.6	103.5	102.8	106.4	93.0
P/E (Basic) (x)	46.5	31.7	21.9	16.0	12.6
P/B (x)	6.9	6.3	5.0	4.1	3.4
Dividend Yield (%)	1.1	1.6	2.2	2.5	2.8

### 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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