

11 February 2019

Outperform

Transfer of coverage

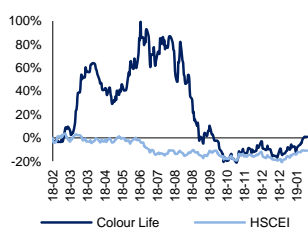
风险可控，维持增持评级

彩生活服务集团 (01778:HK)

Market Data: Feb, 11

Closing Price (HK\$)	4.47
Price Target (HK\$)	5.30
HSCEI	11,017
HSCCI	4,397
52-week High/Low (HK\$)	9.25/3.49
Market Cap (USD Mn)	757
Market Cap (HK\$ Mn)	5,939
Shares Outstanding (Mn)	1,329
Exchange Rate (RMB-HK\$)	1.16

Price Performance Chart:



Source: Bloomberg

Analyst

Zoe Zhang

A0230517060002

BGZ938

zhangbb@swsresearch.com

Related Reports

Lumpy margin, Aug23, 2018

Managing expectation, Aug13, 2018

Property expansion, Mar20, 2018

The clients shall have a comprehensive understanding of the disclosure and disclaimer upon the last page.

Financial summary and valuation

	2016	2017	2018E	2019E	2020E
Revenue (Rmbm)	1,342	1,629	3,104	3,978	4,315
YoY (%)	62%	21%	91%	28%	8%
Net income (Rmbm)	188	321	506	674	753
YoY (%)	11%	71%	58%	33%	12%
EPS (Rmb)	0.19	0.32	0.38	0.51	0.57
ROE (%)	12.3%	9.1%	13.0%	15.2%	15.0%
Net gearing (%)	0%	12%	19%	19%	16%
Dividend yield (%)	2.2%	3.4%	2.9%	3.9%	4.3%
PE (x)	20.5	11.9	10.0	7.5	6.7
PB (x)	2.5	1.1	1.3	1.1	1.0

Core EPS is calculated as if all non-recurring items are excluded. P/E is calculated as closing price divided by each year's core EPS.

我们预计社区服务运营商彩生活服务在实现管理规模稳步扩张的同时积极推进增值服务发展，而同期来自集团开发商销售放缓以及社保征缴新规的潜在影响较为可控。考虑到未来债务偿还节奏，我们将公司 2018 年每股净利预测值小幅下调至 0.38 元（同比增长 19%），并将 2019-2020 年每股净利预测值分别上调至 0.51 元（同比增长 34%）和 0.57 元（同比增长 12%）。我们调整公司目标价为 5.3 港币，对应 9 倍 19 年 PE，维持增持。

截止 2018 年 11 月末，公司总平台服务面积将近 12 亿平米，其中包括合约管理面积 5.3 亿平米（相比 2018 年 6 月末为 4.84 亿平米），为产生基础物管服务收入奠定重要基础；以及合作面积 6.7 亿平米（相比 2018 年 6 月末为 4.97 亿平米），为发展增值服务提供充足用户储备。具体来看，除了 2018 年 3 月完成的万象美收并购新增管理面积约 2000 万平米，彩生活主要通过市场拓展实现了可观的内生增长，同时建立多个合营公司以丰富管理业态（如承接三供一业项目等）并探索海外市场（如越南等）。此外，公司于 2019 年 1 月宣布已提前全部偿还 2018 年 2 月初借入的一笔 10 亿元短期贷款（其中 2018 年底前偿还 3.1 亿元，2019 年 1 月偿还剩余 6.9 亿元），预计未来可节省利息费用，优化债务结构，减轻财务负担，从而释放一定利润，同时对收并购维持谨慎态度。

作为行业内探索增值服务的先行者，截止 2018 年 11 月末，公司在线平台彩之云注册用户数接近 2000 万，活跃用户数超过 400 万。此外，平台 2018 年 前 11 个月累计成交金额同比增长 37%至 83 亿元，其中彩富人生仍为拳头产品，而 2018 年 3 月末新推出的彩惠人生也有所发力，累计成交金额达 6100 万元。我们预计增值服务的收入贡献占比仍仅次于基础物管服务，而其毛利润贡献占比有望从 2017 年的 31%提升至 2020 年的 33%。

公司定位为独立第三方物管公司，其合约管理规模在行业内稳居首位，其中来自集团开发商花样年的贡献仅约为 1%，其余 99%则来自于第三方项目，由此显示公司强大的市场拓展能力，而市场所担忧的集团开发商未来新房销售若出现放缓所带来的负面影响则较为可控。此外，考虑到社保新规若严格执行将导致人力成本有所上涨，公司着手探索物业订单化等方式减少政策冲击，同时因其在管面积的酬金制比例在行业内位居第一，高达 65%（相比中海物业为 46%，绿城服务为 2%，碧桂园服务仅 0.3%），酬金制下毛利率为 100%，预计利润率压力相比同业更小。

公司股价年初至今上涨 7%，目前估值为 7 倍 19 年 PE，相比行业平均为 19 倍 19 年 PE。考虑到未来债务偿还节奏，我们将公司 2018 年每股净利预测值从 0.40 元小幅下调至 0.38 元（同比增长 19%），并将 2019-2020 年每股净利预测值分别从 0.50 元和 0.55 元上调至 0.51 元（同比增长 34%）和 0.57 元（同比增长 12%）。考虑到近期市场疲弱，且公司偏中端的市场定位和收费水平导致每平米盈利能力较同业更弱，我们调整公司目标价为 5.3 港币（原目标价为 8.3 港币），对应 9 倍 19 年 PE。目前股价较新目标价存在 18.6%上升空间，我们维持彩生活服务增持评级。

Colour Life Services achieved solid area growth with encouraging progress in terms of value-added services (VAS), while facing limited risks from China's weakening property market and new social insurance policy. Given the firm's loan repayment pace, we lower our 18E EPS forecast from Rmb0.40 to Rmb0.38 in 18E (+18.8% YoY) and raise our forecasts from Rmb0.50 to Rmb0.51 in 19E (+34.2% YoY) and from Rmb0.55 to Rmb0.57 in 20E (+11.8% YoY). We revise down our target price from HK\$8.30 to HK\$5.30, representing 9x 19E PE. With 18.6% upside, we maintain Outperform.

Steady expansion. As of end-November 2018, the firm's total platform service area amounted to 1.2bnsqm, including contracted area of 530msqm (vs 484msqm in mid-2018), which mainly generated property management services revenue, and co-operated area of 670msqm (vs 497msqm in mid-2018), which provided a significant client base for the development of value-added services. In addition to its acquisition of Wanxiangmei (with managed area of c.20msqm), completed in March 2018, Colour Life successfully increased its managed area mainly through market expansion, while establishing several joint ventures to diversify its management portfolio and enter overseas markets. Moreover, the company had repaid Rmb1.0bn of short-term loans (contracted in February 2018) as of end-January, thus lowering its interest expense and improving its gearing ratio. Meanwhile, we note the firm remains cautious about acquisition opportunities.

Flourishing VAS segment. As a pioneer in VAS, the company's online platform Caizhiyun recorded c.20m registered users as of end-November 2018, with 4m active users. Moreover, its gross merchandise volume (GMV) reached Rmb8.3bn in the first 11 months of 2018 (+37% YoY), with Colour Wealth Life remaining the main contributor, while Colour Benefit Life generated Rmb61m after its launch in March 2018. We expect VAS to remain the firm's second largest revenue contributing segment, with gross profit contribution rising from 31% in 17A to 33% in 20E.

Limited risks. The company has positioned itself as an independent property management services provider, with the largest contracted area in the industry. Its parent Fantasia (01777:HK – Not rated) only contributed c.1%, indicating strong market expansion capability and limited exposure to a potential slowdown in the developer's new home sales. Moreover, given a likely rise in labour costs amid stricter social insurance collection rules, the firm has started to implement a flexible employment strategy to minimise the negative impact. We believe its margin pressure is under control, as it recorded the highest proportion of managed area under a commission basis (100% gross margin) at 65%, vs 46% for China Overseas Property (02669:HK – BUY), 2% for Greentown Service (02869:HK – Outperform), and 0.3% for Country Garden Services (06098:HK – Outperform).

Maintain Outperform. The stock rose 7% YTD, with a valuation of 7x 19E PE (vs sector average: 19x). Taking the firm's loan repayment pace into account, we lower our 18E EPS forecast from Rmb0.40 to Rmb0.38 in 18E (+18.8% YoY) and raise our forecasts from Rmb0.50 to Rmb0.51 in 19E (+34.2% YoY) and from Rmb0.55 to Rmb0.57 in 20E (+11.8% YoY). Given its lower-end market positioning amid a fragile market sentiment, we revise down our target price from HK\$8.30 to HK\$5.30, representing 9x 19E PE. With 18.6% upside, we maintain our Outperform rating.

Steady expansion

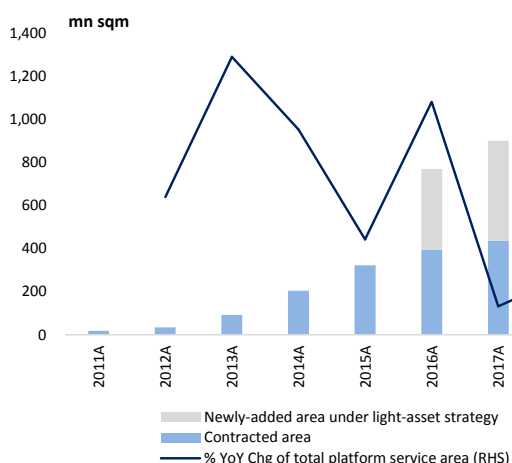
Colour Life Services achieved solid area growth with encouraging progress in terms of value-added services (VAS), while facing limited risks from China's weakening property market and new social insurance policy.

As of end-November 2018, the firm's total platform service area amounted to 1.2bnsqm, including contracted area of 530msqm (vs 484msqm in mid-2018), which mainly generated property management services revenue, and co-operated area of 670msqm (vs 497msqm in mid-2018), which provided a significant client base for the development of value-added services.

In addition to its acquisition of Wanxiangmei (with managed area of c.20msqm), completed in March 2018, Colour Life successfully increased its managed area mainly through market expansion, while establishing several joint ventures to diversify its management portfolio and enter overseas markets.

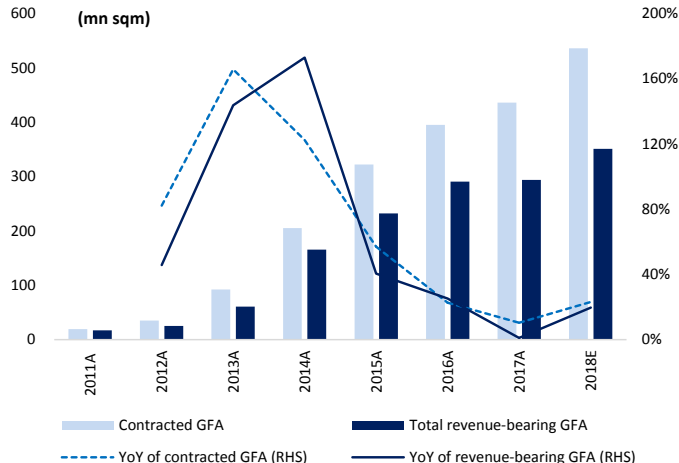
Moreover, the company had repaid Rmb1.0bn of short-term loans (contracted in February 2018) as of end-January (Rmb310m repaid as of end-2018, the remaining Rmb690m being repaid in January 2019), thus lowering its interest expense and improving its gearing ratio. Meanwhile, we note the firm remains cautious about acquisition opportunities.

Fig 1: Breakdown of total platform service area



Source: Company data, SWS Research

Fig 2: Contracted GFA and revenue-bearing GFA



Source: Company data, SWS Research

Flourishing VAS segment

As a pioneer in VAS, the company's online platform Caizhiyun recorded c.20m registered users as of end-November 2018, with 4m active users.

Moreover, its gross merchandise volume (GMV) reached Rmb8.3bn in the first 11 months of 2018 (+37% YoY), with Colour Wealth Life remaining the main contributor, while Colour Benefit Life generated Rmb61m after its launch in March 2018.

We expect VAS to remain the firm's second largest revenue contributing segment, with gross profit contribution rising from 31% in 17A to 33% in 20E.

Fig 3: Community ecosystem

Models	Services	Partners	Current achievements
Cooperation model	Financial services	E-Wealth Management	Colour Wealth Life contributed GMV of Rmb1.5bn in 1H18 Colour Benefit Life generated GMV of Rmb61m in January-November 2018
	Commodity services	JD.com SF Express	Online product supplier Offline delivery provider
Incubation model	Living services	E-Repair	Daily order volume of more than 15,000 orders Orders originating from households (public area = 95%): 5%

Revenue sources: 5% platform fee per order + 5% stake in E-Repair		
Housing services	E-Leasing	Platform of housing bank and leasing business
		More than 20,000 self-occupied houses
Elevator maintenance	E-Elevator	Managed 70,000 elevators in total
		c.70% from third-party communities
Energy saving	E-Energy	Covered 1,600 communities in total
Parking management	E-Parking	Covered 1,000 communities in total

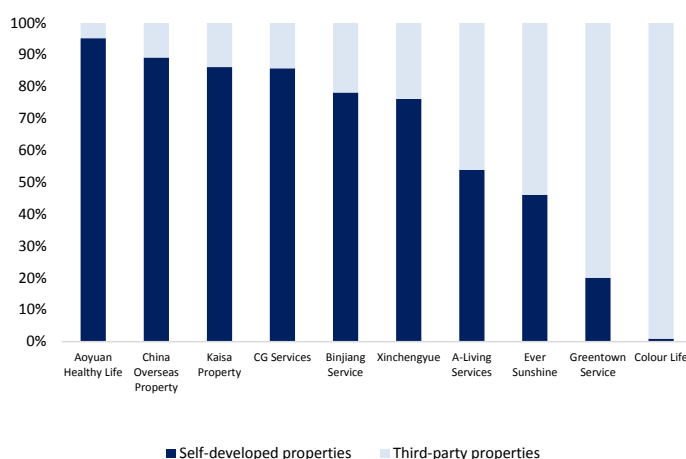
Source: Company data, SWS Research

Limited risks

The company has positioned itself as an independent property management services provider, with the largest contracted area in the industry. Its parent Fantasia (1777:HK – Not rated) only contributed c.1%, indicating strong market expansion capability and limited exposure to a potential slowdown in the developer's new home sales.

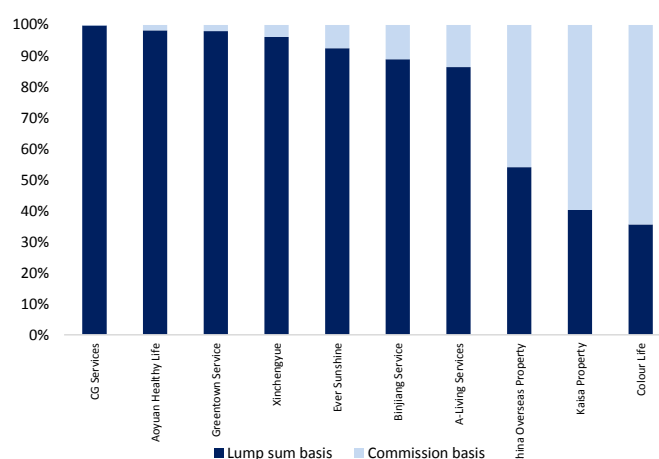
Moreover, given a likely rise in labour costs amid stricter social insurance collection rules, the firm has started to implement a flexible employment strategy to minimise the negative impact. We believe its margin pressure is under control, as it recorded the highest proportion of managed area under a commission basis (100% gross margin) at 65%, vs 46% for China Overseas Property (02669:HK – BUY), 2% for Greentown Service (02869:HK – Outperform), and 0.3% for Country Garden Services (06098:HK – Outperform).

Fig 4: Managed area breakdown by project source



Source: Company data, SWS Research

Fig 5: Managed area breakdown by charging method



Source: Company data, SWS Research

Maintain Outperform

The stock rose 7% YTD, with a valuation of 7x 19E PE (vs sector average: 19x). The company's controlling shareholder conducted two rounds of share buybacks in October 2018 (828,000 shares at an average price of HK\$3.71) and January 2019 (500,000 shares at an average price of HK\$4.15), and granted a total of 19.5m stock options to the management team in November 2018, with an exercise price of HK\$4.11, indicating strong confidence in the firm's future growth.

Taking the firm's loan repayment pace into account, we lower our 18E EPS forecast from Rmb0.40 to Rmb0.38 in 18E (+18.8% YoY) and raise our forecasts from Rmb0.50 to Rmb0.51 in 19E (+34.2% YoY) and from Rmb0.55 to Rmb0.57 in 20E (+11.8% YoY). Given its lower-end market positioning amid a fragile market sentiment, we revise down our target price from HK\$8.30 to HK\$5.30, representing 9x 19E PE. With 18.6% upside, we maintain our Outperform rating.

Fig 6: Target prices and valuations

Company	Code	Market Cap (HK\$bn)	Rating	Target price (HK\$)	PE (x)			Dividend yield	Share price performance	
					17A	18E	19E		2018	YTD
Country Garden Services	6098 HK	31.0	Outperform	14.6	66	30	24	0.8%	24%	0%
Greentown Service	2869 HK	19.7	Outperform	7.5	44	34	26	1.0%	-2%	18%
China Overseas Property	2669 HK	9.0	Buy	3.3	29	22	18	1.5%	8%	20%
Colour Life Services	1778 HK	5.9	Outperform	5.3	12	10	7	3.1%	-19%	7%
Average					38	24	19	1.6%	3%	11%

Source: Bloomberg, Company data, SWS Research

Fig 7: Score card of key listed property management companies under our coverage

		Colour Life Services	China Overseas Property	Greentown Service	Country Garden Services
Total score		5.2	6.4	7.0	8.6
Developer support (20%)	Developer	Fantasia (1777:HK)	COLI (688:HK)	Greentown China (3900:HK)	Country Garden (2007:HK)
	2017 contracted sales (Rmbbn)	20	197	103	551
	% Chg YoY	65%	10%	8%	78%
	2017 GFA sold (msqm)	2	14	5	61
	% Chg YoY	44%	11%	-5%	62%
Score		2	8	6	9
Growth visibility (20%)	2017 managed area (mqm)	276	96	105	123
	% of group-developed projects	1%	89%	20%	86%
	% of third-party projects	99%	11%	80%	14%
	2017 reserve area / managed area	58%	33%	109%	168%
	Score	6	4	8	9
Property management (20%)	2017 property management revenue (Rmb/sqm/month)	0.8	3.6	2.9	1.7
	2017 gross margin of lump sum basis	21%	14%	11%	29%
	2017 gross margin of commission basis	100%	100%	100%	100%
	2017 gross margin of property management services	33%	21%	11%	29%
	Fee collection ratio	92%	93%	97%	95%
Score		4	5	6	7
Profitability & growth (20%)	2017 net margin	20%	9%	8%	13%
	2017 net profit (Rmbm)	321	258	387	402
	2018E net profit (Rmbm)	506	347	505	902
	2019E net profit (Rmbm)	674	415	645	1,207
	2-Y Cagr in 2018-19E net profit	45%	27%	29%	73%
Score		8	6	7	9
VAS Potential (10%)	2017 VAS gross profit contribution	41%	18%	58%	28%
	2017 gross margin of VAS segment	75%	54%	35%	50%
Score		7	8	6	8
Cash & gearing (10%)	2017 cash on hand (Rmbbn)	2.4	2.3	2.0	2.6
	2017 debt (Rmbbn)	2.9	0.2	0.0	0.0
	2017 net debt to equity ratio	12%	-284%	-100%	-171%
Score		5	10	10	10

Note: Score valuation for each category ranges from 1-10.

Source: Company data, SWS Research

Appendix, Financial statements

Fig 1: Forecast Income Statement

(Rmbm)	2013A	2014A	2015A	2016A	2017A	2018E	2019E	2020E
Revenue	233	389	828	1,342	1,629	3,104	3,978	4,315
Cost of Sales	(89)	(79)	(373)	(756)	(898)	(1,892)	(2,425)	(2,614)
Gross Profit	144	310	454	586	731	1,213	1,552	1,701
Other gains and losses	(10)	(12)	(27)	(31)	(5)	(3)	(4)	(4)
Other Income	4	4	14	20	53	53	48	43
Selling and distribution expenses	(2)	(2)	(16)	(13)	(26)	(16)	(20)	(30)
Administrative expenses	(60)	(93)	(217)	(298)	(277)	(435)	(613)	(669)
Expenses recharged to communities under commission basis	17	20	47	66	67	124	159	173
Operating profit	93	228	255	330	542	936	1,123	1,213
Finance costs	(1)	(2)	(11)	(38)	(90)	(301)	(220)	(205)
Listing expenses	(23)	(16)	0	0	0	0	0	0
Others	1	2	8	6	5	47	20	22
Profit before tax	71	212	252	298	457	682	922	1,030
Income tax expense	(25)	(61)	(69)	(82)	(106)	(143)	(212)	(237)
Profit for the year	45	150	183	216	351	539	710	793
Profit for the year from discontinued operations	0	0	0	0	0	0	0	0
Profit and total comprehensive income for the year	45	150	183	216	351	539	710	793
Non-controlling interests	1	5	14	28	30	33	36	40
Profit attr to shareholders	44	146	168	188	321	506	674	753
Dividends paid	-	66	84	90	121	152	202	226
Basic EPS	0.06	0.17	0.17	0.19	0.32	0.38	0.51	0.57
Diluted EPS	0.06	0.17	0.17	0.19	0.32	0.38	0.51	0.57
DPS		0.07	0.08	0.09	0.12	0.12	0.15	0.17

Source: Company data, SWS Research

Fig 2: Forecast Balance Sheet

(Rmbm)	2013A	2014A	2015A	2016A	2017A	2018E	2019E	2020E
PP&E	24	68	167	181	240	457	586	636
Investment properties	27	30	89	93	71	134	159	173
Interest in an associate & JV	2	2	7	9	69	31	40	43
Intangible assets	1	27	152	210	1,274	310	398	432
Others	67	264	715	1,078	2,510	4,544	5,566	5,395
Non-current assets	120	391	1,131	1,570	4,164	5,477	6,748	6,678
Inventories	0	1	2	2	7	8	11	12
Trade receivables	50	153	179	271	538	561	718	779
Other receivables and prepayments	43	69	112	196	472	647	773	839
Payments on behalf of residents	44	86	170	260	522	690	884	959
Amounts due from customers for contract works	44	41	34	41	44	138	177	192
Amounts due from fellow subsidiaries	32	20	47	35	447	216	276	300
others	14	15	55	317	201	431	552	599
Financial assets at FVTPL			19	83	192	201	212	222
Restricted bank deposits	1	136	551	493	377	377	377	377
Bank balances and cash	146	687	419	755	1,848	2,500	1,370	1,223
Current assets	375	1,209	1,589	2,453	4,648	5,769	5,350	5,502
Total assets	494	1,600	2,719	4,023	8,812	11,246	12,098	12,180
Share capital	0	79	79	79	79	79	79	79
Reserves	179	992	1,180	1,380	3,320	3,674	4,146	4,673
Majority interests	179	1,072	1,259	1,459	3,399	3,753	4,225	4,752
Non-controlling interests	5	16	41	74	106	149	208	271
Total equity	184	1,087	1,301	1,532	3,505	3,902	4,433	5,023
Deferred tax liabilities	1	7	54	74	338	505	683	763
Amount due to a non-controlling shareholder	1	2	1	10	2	1	0	0
Borrowings due after one year	0	0	290	499	1,395	1,674	1,339	1,071
Corporate bonds				388	536	438	438	438
Assets backed securities issued	7			237	185	185	185	185
Non-current liabilities	8	9	345	1,208	2,457	2,803	2,646	2,458
Trade payables	21	26	80	114	284	420	539	581
Other payables and accruals	93	176	421	596	1,208	1,314	2,021	1,452
Receipts on behalf of residents	97	73	104	156	382	173	192	210
Amounts due to customers for contract works	3	8	17	17	14	53	67	73
Amount due to an associate	2	1	5	8	14	53	67	73
Other amounts due	40	8	35	41	36	788	1,010	1,089
Borrowings due within one year	0	128	303	162	674	1,364	674	741
Corporate bonds				14	16	129	129	129
Assets backed securities issued				38	43	43	43	43
Tax liabilities	46	84	108	137	179	205	277	309
Current liabilities	302	503	1,074	1,282	2,850	4,541	5,020	4,699
Total liabilities	311	512	1,418	2,490	5,307	7,344	7,665	7,157
Total equity and liabilities	494	1,600	2,719	4,023	8,812	11,246	12,098	12,180

Source: Company data, SWS Research

Fig 3: Forecast Cash Flow Statement

(Rmbm)	2013A	2014A	2015A	2016A	2017A	2018E	2019E	2020E
Cash generated from operations	58	83	303	455	478	764	994	1,292
Income taxes paid	(13)	(26)	(65)	(82)	(106)	(143)	(212)	(237)
Net cash from operating activities	45	57	239	373	372	621	782	1,055
Acquisitions	(20)	(32)	(486)	(263)	(147)	(361)	(212)	(193)
Others	384	(306)	(415)	(498)	(548)	(658)	(664)	(671)
Net cash from investing activities	363	(338)	(901)	(761)	(695)	(1,019)	(877)	(864)
Interest paid	(0)	(2)	(11)	(241)	(513)	(690)	(505)	(469)
Net borrowing	(0)	128	465	67	1,409	969	(1,025)	(200)
Net proceeds in issue of new shares		750				1,358		
Issue of share upon exercise of share option	43		1	1				
Listing expense paid		(21)	(15)					
Proceeds from issue of corporate bonds				388	148			
Proceeds from issue of assets backed securities				237	(52)			
Dividend paid			(84)	(90)	(121)	(152)	(202)	(226)
Others	(330)	(34)	40	360	545	(436)	698	558
Net cash from financing activities	(287)	821	395	723	1,416	1,050	(1,035)	(338)
Net increase in cash and cash equivalents	121	541	(268)	335	1,093	652	(1,130)	(147)
Cash and cash equivalents at beginning of year	25	146	687	419	755	1,848	2,500	1,370
Cash and cash equivalents at end of the year	146	687	419	755	1,848	2,500	1,370	1,223

Source: Company data, SWS Research

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