

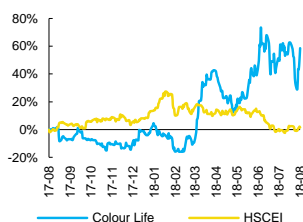
13 August 2018

Outperform Downgraded

Market Data: Aug, 10

Closing Price (HK\$)	8.41
Price Target (HK\$)	9.40
HSCEI	10,943
HSCCI	4,274
52-week High/Low (HK\$)	9.25/4.41
Market Cap (USD Mn)	1,423
Market Cap (HK\$ Mn)	11,173
Shares Outstanding (Mn)	1,329
Exchange Rate (RMB-HK\$)	1.15

Price Performance Chart:



Source: Bloomberg

Analyst

Kris Li A0230511040076
ARG379
lihong@swsresearch.com

Research assistant

Zoe Zhang
A0230517060002
BGZ938

Related Reports

Property expansion, Mar20, 2018
Value acquisition, Mar12, 2018
Asset expansion, Dec22, 2017

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Managing expectation

COLOUR LIFE SERVICES GROUP (1778:HK)

Financial summary and valuation

	2016	2017	2018E	2019E	2020E
Revenue (Rmbm)	1,342	1,629	3,104	3,950	4,285
YoY (%)	62%	21%	91%	27%	8%
Net income (Rmbm)	188	321	521	656	724
YoY (%)	11%	71%	62%	26%	10%
EPS (Rmb)	0.19	0.32	0.40	0.50	0.55
ROE (%)	12.3%	17.6%	23.3%	23.8%	21.8%
Net gearing (%)	0%	4%	6%	4%	4%
Dividend yield (%)	1.2%	1.8%	1.6%	2.0%	2.2%
PE (x)	36	21	17	13	12
PB (x)	4	4	4	3	3

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.

Colour Life Services Group released a positive profit alert guiding 60%-plus YoY growth in net profit for 1H18. Meanwhile, the stock was included in the Hang Seng Hong Kong Stock Connect Index. As the company's margins may face pressure, we lower our EPS forecasts from HK\$0.45 to HK\$0.40 in 18E (+25% YoY), from HK\$0.52 to HK\$0.50 in 19E (+25% YoY), and from HK\$0.57 to HK\$0.55 in 20E (+10% YoY). We raise our target price from HK\$8.00 to HK\$9.40 (15x 19E PE). With 12% upside, we downgrade our rating from BUY to Outperform.

Positive alert. For the upcoming 2018 interim results, the company expects net profit to grow more than 60% YoY in 1H18, attributing the strong growth to its expanding value-added services (VAS), driven by rapid development of its online platform and consolidation of results from Wanxiangmei Property Management starting from 2Q18. Prior to this, A-Living Services (03319:HK – Not rated) reported 1H18 net profit of Rmb332m (+196% YoY), vs guidance of 150%-plus YoY growth, while market leader Country Garden Services (06098:HK – Not rated) guided 110% YoY growth for the period, citing rapid expansion in managed area, optimised revenue structure, and tax bonuses.

Wanxiangmei acquisition. The company acquired Wanxiangmei from its parent company Fantasia (01777:HK – Not rated) in 1Q18, which start to contribute from 2Q18. Wanxiangmei recorded net profit of Rmb235m in the first 10 months of 2017, based on which we estimate full-year earnings of Rmb282m, with gross margin of 33% and net margin of 19%, while its average fee at Rmb6.0/sqm/month, contrasts with Colour Life's c.Rmb1.0 average, underscoring its high-end market focus. However, the newly-added 20msqm of managed GFA from Wanxiangmei is mainly charged under the lump-sum method, which offers lower gross margin than the 100% margin from a commission-based charging scheme, and may weigh on Colour Life's overall margin in 1H18E.

HK Stock Connect. Hang Seng Indexes added Colour Life to its Hong Kong Stock Connect Index and Country Garden Services to its Hang Seng MidCap Index, making both stocks eligible for trading under the Hong Kong Stock Connect schemes, starting September. We note that Colour Life was previously removed from the list Stock Connect stocks in March 2018, resulting in the holdings by mainland investors declining from 5.3% to 3.1% at present.

Downgrade to Outperform. The stock has risen 65% YTD (vs a 7% decline in the HSCEI) with a valuation at 13x 19E PE, (sector: 19x 19E PE). Among peers, Greentown Service (02869:HK – Outperform) trades at 26x 19E PE and China Overseas Property (02669:HK – BUY) stands at 18x 19E PE. We favour Colour Life for its promising contribution from acquisition, although its margin may face pressure. We lower EPS forecasts from HK\$0.45 to HK\$0.40 in 18E (+25% YoY), from HK\$0.52 to HK\$0.50 in 19E (+25% YoY), and from HK\$0.57 to HK\$0.55 in 20E (+10% YoY). We raise our target price from HK\$8.00 to HK\$9.4, implying a target PE at 15x 19E PE, given potential risks from high-yield wealth management VAS. With 12% upside, we downgrade rating from BUY to Outperform.

社区服务运营商彩生活服务集团于上周五发布盈喜，预计今年上半年的股东应占溢利将同比增长超过 60%，同一时间，彩生活在恒生指数调整中被重新纳入恒生港股通指数。考虑到公司毛利率因收入结构变化而有所承压，我们将公司 2018-2020 年每股净利预测值分别小幅下调至 0.40 元（同比增长 25%）、0.50 元（同比增长 25%）和 0.55 元（同比增长 10%），并将公司目标价上调至 9.4 港币，对应 19 年目标估值为 15 倍，考虑到目前股价较新目标价存在约 12% 上升空间，我们将彩生活评级降至增持。

在即将到来的中报季，彩生活预计其今年上半年净利将同比增长超过 60%，主要受益于彩之云网上平台快速发展带来的增值服务增长，以及万象美自今年二季度开始并表带来的业绩贡献。在此之前，另两家今年新进上市的物业管理公司也已发布盈喜，其中雅生活服务于上周披露中期业绩，今年上半年净利同比增长 196% 至 3.22 亿元，超出 7 月中旬盈喜公告中预计的逾 150% 同比增速，而行业龙头碧桂园服务则预计今年上半年净利同比增长超过 110%，主要受益于公司管理面积的迅速扩张、增值服务收入上升带来的业务结构优化以及因获“高新技术企业”而产生的税收红利。

彩生活于 2018 年一季度完成从母公司民营开发商花样年收购万象美物业管理 100% 股权，其业绩贡献将从 2018 年二季度开始体现。根据公司公告，万象美物业于 2017 年前 10 个月实际实现利润 2.35 亿元，并估算于 2017 年全年实现利润 2.82 亿元，毛利率和净利率分别达 33% 和 19%。根据万象美物业的收入和管理面积，我们估算其平均物业管理费为 6.0 元/平米/月，相比彩生活平均物业管理费约为 1.0 元/平米/月，因此我们认为此次收购可为彩生活进军高端市场奠定基础。但由于万象美贡献的约 2000 万平米管理面积均实施包干制管理（相比酬金制下毛利率为 100%），预计彩生活毛利率可能有所承压。

上周五同一时间，恒生指数公司发布了新一季的恒指季检结果，其中彩生活被纳入恒生港股通指数，同时碧桂园服务被纳入恒生中型股指数，均有望于 9 月初进入港股通交易名单。此前，彩生活在年初被深交所调出港股通交易名单，于 3 月初正式起效，因此其内地投资者持股比例从 5.27% 持续回落至当前的 3.14%，而此次重返港股通也将为内地投资者重新开启交易渠道。

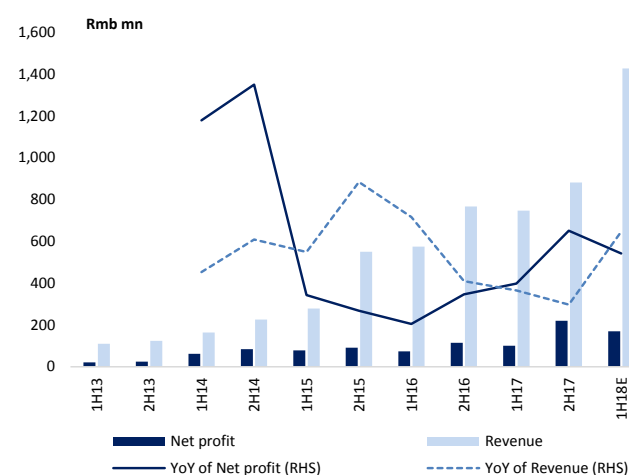
彩生活股价年初至今大幅反弹 65%（相比同期恒生国企指数下跌 7%），目前估值为 13 倍 19 年 PE，相比同期板块平均估值为 19 倍 19 年 PE，其中绿城服务目前估值为 26 倍 19 年 PE，中海物业估值为 18 倍 19 年 PE。我们看好该公司受益于万象美物业今年二季度开始并表带来的业绩贡献，尽管收入结构变化可能使其毛利率有所承压。我们将公司 2018-2020 年每股净利预测值分别小幅下调至 0.40 元（同比增长 25%）、0.50 元（同比增长 25%）和 0.55 元（同比增长 10%），并将公司目标价从 8.0 港币上调至 9.4 港币，对应 19 年目标估值为 15 倍，因考虑到彩富人生等理财增值服务在整体去杠杆环境下可能隐含一定风险。目前股价较新目标价存在 12% 上升空间，我们将彩生活评级由买入降至增持。

Positive profit alert

Colour Life Services Group released a positive profit alert last Friday, and guided 60%-plus YoY growth in net profit in 1H18. Meanwhile, it was included in the Hang Seng Hong Kong Stock Connect index in the index review.

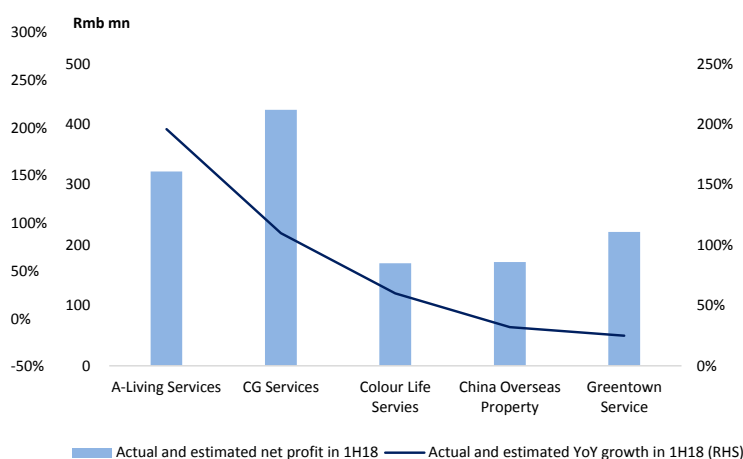
For the upcoming 2018 interim results, the company expects net profit to grow more than 60% YoY in 1H18, attributing the strong growth to its expanding value-added services (VAS), driven by rapid development of its online platform and consolidation of results from Wanxiangmei Property Management starting from 2Q18. Prior to this, A-Living Services (03319:HK – Not rated) reported 1H18 net profit of Rmb332m (+196% YoY), vs guidance of 150%-plus YoY growth, while market leader Country Garden Services (06098:HK – Not rated) guided 110% YoY growth for the period, citing rapid expansion in managed gross floor area, optimised revenue structure, and tax bonuses.

Fig 1: Actual and estimated revenue and net profit, 2013-1H18



Source: Company data, SWS Research

Fig 2: Actual and estimated net profit of key peers with YoY growth in 1H18



Source: Company data, SWS Research

Wanxiangmei acquisition

The company acquired Wanxiangmei from its parent company Fantasia (01777:HK – Not rated) in 1Q18, which start to contribute from 2Q18. Wanxiangmei recorded net profit of Rmb235m in the first 10 months of 2017, based on which we estimate full-year earnings of Rmb282m, with gross margin of 33% and net margin of 19%, while its average fee at Rmb6.0/sqm/month, contrasts with Colour Life’s c.Rmb1.0 average, underscoring its high-end market focus. However, the newly-added 20msqm of managed GFA from Wanxiangmei is mainly charged under the lump-sum method, which offers lower gross margin than the 100% margin from a commission-based charging scheme, and may weigh on Colour Life’s overall margin in 1H18E.

Fig 3: Change of shareholding structure for Wanxiangmei acquisition

Shareholder	As at the date of this announcement		Upon the issue of Placing Shares		Upon the issue of Placing Shares and Consideration Shares	
	Number of Shares (mn)	%	Number of Shares (mn)	%	Number of Shares (mn)	%
Fantasia	721	72.41%	721	66.57%	952	72.46%
Zengjie, Baby	1	0.13%	1	0.12%	1	0.10%
Sub-total	722	72.54%	722	66.70%	954	72.56%
Placees	--	--	87	8.06%	87	6.64%
Public shareholders	273	27.46%	273	25.25%	273	20.80%
Total	996	100%	1,083	100%	1,314	100%

Source: Company data, SWS Research

Fig 4: Breakdown of total GFA of acquired Wanxiangmei assets in August 2016

(msqm)	Residential properties	Commercial properties	Sub-total
Revenue-bearing GFA	10.8	12.1	22.9
Undelivered GFA	14.7	5.3	19.9
Sub-total	25.5	17.3	42.9
	Unregistered GFA		21.2
	Total GFA		64.1

Source: Company data, SWS Research

HK Stock Connect

Hang Seng Indexes added Colour Life to its Hong Kong Stock Connect Index and Country Garden Services to its Hang Seng MidCap Index, making both stocks eligible for trading under the Hong Kong Stock Connect schemes, starting September.

We note that Colour Life was previously removed from the list Stock Connect stocks in March 2018, resulting in the holdings by mainland investors declining from 5.3% to 3.1% at present.

Fig 5: Potential stock list eligible for Hong Kong Stock Connect after Hang Seng Index review

Code	Company name	Company name	Hang Seng Index	Closing price (HK\$)	HK Circulation mkt cap (HK\$ bn)	GIS I
1833.HK	平安好医生	Ping An Healthcare And Technology	MidCap	47.00	50.2	Health care
6098.HK	碧桂园服务	Country Garden Services	MidCap	12.84	32.1	Real estate
0054.HK	合和实业	Hopewell	MidCap	27.60	24.0	Industrial
1233.HK	时代中国控股	Times China	MidCap	10.28	18.9	Real estate
0612.HK	中国投资基金公司	China Investment Fund International	SmallCap	13.54	16.5	Finance
0520.HK	呷哺呷哺	Xiabuxiabu Catering Management (China)	SmallCap	15.24	16.4	Consumer Discretionary
1717.HK	澳优	Ausnutria Dairy	SmallCap	11.00	14.7	Consumer Staples
2362.HK	金川国际	Jinchuan Group International Resources	SmallCap	1.15	14.5	Materials
0059.HK	天誉置业	Skyfame Realty	SmallCap	5.48	14.4	Real estate
6100.HK	有才天下猎聘	Wise Talent Information Technology	SmallCap	27.60	13.7	Industrial
1686.HK	新意网集团	Sunevision	SmallCap	5.67	13.2	Information Technology
3613.HK	同仁堂国药	Beijing Tong Ren Tang Chinese Medicine	SmallCap	15.56	13.0	Health care
3669.HK	永达汽车	China Yongda Automobiles Services	MidCap	6.96	12.8	Consumer Discretionary
1778.HK	彩生活	Colour Life Services	SmallCap	8.41	11.2	Real estate
1608.HK	伟能集团	Vpower Group International	SmallCap	3.77	9.7	Industrial
1558.HK	东阳光药	Yichang Hec Changjiang Pharmaceutical	SmallCap	38.25	8.6	Health care
1916.HK	江西银行	Jiangxi Bank	SmallCap	6.40	8.6	Finance
3306.HK	江南布衣	Jnby Design	SmallCap	16.54	8.6	Consumer Discretionary
0631.HK	三一国际	Sany Heavy Equipment International	SmallCap	2.70	8.2	Industrial
0989.HK	广泽国际发展	Ground International Development	SmallCap	1.47	7.8	Real estate
2662.HK	承兴国际控股	Camsing International	SmallCap	6.55	7.1	Information Technology
1086.HK	好孩子国际	Goodbaby International	SmallCap	4.10	6.8	Consumer Discretionary
3309.HK	希玛眼科	C-Mer Eye Care	SmallCap	6.48	6.7	Health care
2003.HK	维信金科	Vcredit	SmallCap	13.08	6.6	Finance
6166.HK	中国宏泰发展	China VAST Industrial Urban Development	SmallCap	3.56	5.9	Real estate
0419.HK	华谊腾讯娱乐	Huayi Tencent Entertainment	SmallCap	0.40	5.3	Health care
1806.HK	汇付天下	Huifu Payment	SmallCap	3.94	4.9	Information Technology

Source: Wind, SWS Research

Downgraded to Outperform

The company's stock has risen 65% YTD (vs a 7% decline in the HSCEI) with a valuation at 13x 19E PE, (sector: 19x 19E PE). Among peers, Greentown Services (02869:HK – Outperform) trades at 26x 19E PE and China Overseas Property (02669:HK – BUY) stands at 18x 19E PE.

We favour Colour Life for its promising contribution from acquisition, although its margin may face pressure. We lower our EPS forecasts from HK\$0.45 to HK\$0.40 in 18E (+25% YoY), from HK\$0.52 to HK\$0.50 in 19E (+25% YoY), and from HK\$0.57 to HK\$0.55 in 20E (+10% YoY).

We raise our target price from HK\$8.00 to HK\$9.4, implying a target PE at 15x 19E PE, given potential risks from high-yield wealth management VAS. With 12% upside, we downgrade rating from BUY to Outperform.

Fig 6: Community ecosystem

Models	Services	Partners	Current achievements
Cooperation model	Financial services	E-Wealth management	Colour Wealth Life contributed GMV of Rmb1.3bn in 4M18 Future cooperation with large financial institutions (Ping An, etc)
	Commodity services	JD.com S.F. 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

Fig 7: Comparable peers

Company	Code	Market Cap (HK\$bn)	Rating	Target price (HK\$)	PE (x)			PB (x)			Dividend yield	Shares Performance	
					17A	18E	19E	17A	18E	19E		2017	2018
Greentown Service	2869 HK	21	Outperform	8.70	44	34	26	9	7	6	1.0%	133%	25%
China Overseas Property	2669 HK	9	Buy	3.15	29	22	18	10	8	6	1.5%	59%	30%
Colour Life Services	1778 HK	11	Outperform	9.40	21	17	13	4	4	3	2.0%	-10%	65%
Average					31	24	19	8	6	5	1.5%	61%	40%

Source: Bloomberg, 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	3,950	4,285	
Cost of Sales	(89)	(79)	(373)	(756)	(898)	(1,892)	(2,407)	(2,594)	
Gross Profit	144	310	454	586	731	1,213	1,543	1,691	
Other gains and losses	(10)	(12)	(27)	(31)	(5)	(10)	(12)	(13)	
Other Income	4	4	14	20	53	62	59	64	
Selling and distribution expenses	(2)	(2)	(16)	(13)	(26)	(39)	(59)	(64)	
Administrative expenses	(60)	(93)	(217)	(298)	(277)	(528)	(672)	(729)	
Expenses recharged to communities under commission basis	17	20	47	66	67	124	158	171	
Operating profit	93	228	255	330	542	823	1,017	1,121	
Finance costs	(1)	(2)	(11)	(38)	(90)	(101)	(108)	(115)	
Listing expenses	(23)	(16)	0	0	0	0	0	0	
Others	1	2	8	6	5	16	20	21	
Profit before tax	71	212	252	298	457	737	929	1,027	
Income tax expense	(25)	(61)	(69)	(82)	(106)	(171)	(217)	(239)	
Profit for the year	45	150	183	216	351	566	713	787	
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	566	713	787	
Non-controlling interests	1	5	14	28	30	45	57	63	
Profit attr to shareholders	44	146	168	188	321	521	656	724	
Dividends paid	-	66	84	90	121	156	197	217	
	Basic EPS	0.06	0.17	0.17	0.19	0.32	0.40	0.50	0.55
	Diluted EPS	0.06	0.17	0.17	0.19	0.32	0.40	0.50	0.55
	DPS		0.07	0.08	0.09	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	169	321	409	444
Investment properties	27	30	89	93	71	134	158	171
Interest in an associate & JV	2	2	7	9	69	31	40	43
Intangible assets	1	27	152	210	241	310	395	429
Others	67	264	715	1,078	1,219	1,403	1,976	1,769
Non-current assets	120	391	1,131	1,570	1,769	2,201	2,978	2,856
Inventories	0	1	2	2	7	6	7	8
Trade receivables	50	153	179	271	382	560	713	774
Other receivables and prepayments	43	69	112	196	316	647	768	833
Payments on behalf of residents	44	86	170	260	407	690	878	952
Amounts due from customers for contract works	44	41	34	41	44	138	176	190
Amounts due from fellow subsidiaries	32	20	47	35	110	216	274	298
others	14	15	55	317	201	431	549	595
Financial assets at FVTPL			19	83	192	201	212	222
Restricted bank deposits	1	136	551	493	377	302	241	193
Bank balances and cash	146	687	419	755	857	952	1,158	1,290
Current assets	375	1,209	1,589	2,453	2,892	4,143	4,976	5,355
Total assets	494	1,600	2,719	4,023	4,661	6,343	7,954	8,211
Share capital	0	79	79	79	79	79	79	79
Reserves	179	992	1,180	1,380	1,642	2,007	2,466	2,973
Majority interests	179	1,072	1,259	1,459	1,721	2,085	2,545	3,052
Non-controlling interests	5	16	41	74	106	149	208	271
Total equity	184	1,087	1,301	1,532	1,827	2,234	2,753	3,322
Deferred tax liabilities	1	7	54	74	80	129	162	179
Amount due to a non-controlling shareholder	1	2	1	10	2	1	0	0
Borrowings due after one year	0	0	290	499	271	298	327	360
Corporate bonds				388	536	536	536	536
Assets backed securities issued	7			237	185	185	185	185
Long-term payable to a previous joint venture partner						1,000	1,000	1,000
Non-current liabilities	8	9	345	1,208	1,074	1,148	1,211	1,261
Trade payables	21	26	80	114	221	420	535	577
Other payables and accruals	93	176	421	596	625	1,314	2,006	1,441
Receipts on behalf of residents	97	73	104	156	158	162	177	192
Amounts due to customers for contract works	3	8	17	17	14	53	67	72
Amount due to an associate	2	1	5	8	14	53	67	72
Other amounts due	40	8	35	41	36	158	201	216
Borrowings due within one year	0	128	303	162	454	522	600	691
Corporate bonds				14	16	16	16	16
Assets backed securities issued				38	43	43	43	43
Tax liabilities	46	84	108	137	179	221	279	308
Current liabilities	302	503	1,074	1,282	1,760	2,961	3,989	3,628
Total liabilities	311	512	1,418	2,490	2,834	4,109	5,201	4,889
Total equity and liabilities	494	1,600	2,719	4,023	4,661	6,343	7,954	8,211

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	526	683	888
Income taxes paid	(13)	(26)	(65)	(82)	(106)	(171)	(217)	(239)
Net cash from operating activities	45	57	239	373	372	355	467	649
Acquisitions	(20)	(32)	(486)	(263)	(147)	(235)	(162)	(177)
Others	384	(306)	(415)	(498)	(548)	(658)	(664)	(671)
Net cash from investing activities	363	(338)	(901)	(761)	(695)	(893)	(827)	(848)
Interest paid	(0)	(2)	(11)	(241)	(271)	(288)	(307)	(330)
Net borrowing	(0)	128	465	67	64	245	230	205
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)	(156)	(197)	(217)
Others	(330)	(34)	40	360	657	(525)	841	672
Net cash from financing activities	(287)	821	395	723	425	634	566	330
Net increase in cash and cash equivalents	121	541	(268)	335	102	95	206	131
Cash and cash equivalents at beginning of year	25	146	687	419	755	857	952	1,158
Cash and cash equivalents at end of the year	146	687	419	755	857	952	1,158	1,290

Source: Company data, SWS Research

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