

Aoyuan Healthy Life Group Company Limited

Initiation of Coverage

A leading property management service provider

Initiated with Buy rating; a leading property management service and commercial property service provider in China

Aoyuan Healthy Life provides property management service for residential and non-residential properties and commercial operational service for mid-high end shopping malls in China. As at 31 December 2018, it provided property management services to 61 properties with a total GFA of 10.4 million sq.m. and commercial operational services to 9 shopping malls with GFA of 424,000 sq.m. In 2018, it ranked 16th among PRC's Top 100 Property Management Companies according to CIA and the China Real Estate Top 10 Research Team. We forecast a revenue CAGR of 42% and core net profit CAGR of 46% from 2018-2021e driven by high growth in property management services and strong pipeline in commercial operational services.

High growth visibility in property management services due to strong contracted sales of the Parent Group Aoyuan in 2017-2018

The Parent Group Aoyuan guarantees high visibility to Aoyuan Healthy Life's GFA under management growth. Aoyuan recorded yoy increases of 51% and 97% in contracted GFA in 2017 and 2018, respectively. The delivery of Parent Group's projects will drive Aoyuan Healthy Life's revenue growth. We expect revenue in this segment to reach Rmb628mn in 2019e and Rmb885mn in 2020e, a strong growth from Rmb453mn in 2018.

Strong pipeline growth driven by projects from the Parent Group as well as third-party landlord

We believe Aoyuan Healthy Life growth will be driven by the contracted GFA growth of commercial projects as its expertise is highly scalable. The Company is contracted to provide commercial operational services to 25 shopping malls with contracted GFA of approximately 1.3 million sq.m. Given the strong support from the Parent Group and Aoyuan Healthy Life's expanding capacities on commercial operational services, we expect the Company to fetch around 10 new projects per year in 2019-20e. Aoyuan Healthy Life's multiple pipeline projects are contracted by third-party landlord, demonstrating its ability to acquire projects from outside.

Accumulation of tenants is a key asset; scalable expansion

Through years' operations, Aoyuan Healthy Life has accumulated many tenants. We believe most of its tenants are mass market brands that are less vulnerable to economic downturns. The Company has been able to utilize its experience and expand operations to outside of Guangdong along with its anchor tenants.

Proven track record in operating commercial properties

Capitalising on the successful "Aoyuan Plaza" brand and its expertise in shopping mall operation and management, Aoyuan Healthy Life began to provide commercial operational services to independent property developers in 2016. Its commercial operational services comprise two categories: (i) market positioning and business tenant sourcing services; and (ii) commercial operation and management services.

Price target: HK\$6.0 (50% upside)

We derive our Dec-19 price target of HK\$6.0 per share using a discounted cash flow model, assuming 13.0% cost of equity, 2% long-term growth rate.

Stock code: 3662.HK
Rating: Buy

Price target (HK\$)	6.0
Current price (HK\$, 23 May 2019)	4.0
Upside/downside %	50%
Market cap (HK\$ m)	2,905
Market cap (US\$ m)	370
Avg daily turnover (HK\$ m)	41

Source: Bloomberg, AMTD Research

Key forecasts

(Rmb m)	2018	2019e	2020e
Core net profit	94	150	208
yoy %	26%	60%	39%
Revenue	619	893	1,275
yoy %	42%	44%	43%
GFA under management (mn sq.m)-property management services	10	14	19
yoy %	22%	33%	40%
Gross margin	33.7%	34.4%	34.4%
Core net margin	15.1%	16.8%	16.3%
Core EPS	0.13	0.21	0.29

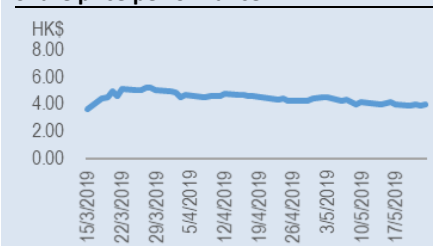
Source: Company data, AMTD Research

Valuation

	2018	2019e	2020e
P/E (adjusted)	27.3x	17.0x	12.3x
P/B	20.2x	3.1x	2.5x
Dividend yield	na	1.3%	2.1%
Recurring ROE	79.3%	35.2%	22.4%

Source: Bloomberg, AMTD Research

Share price performance



Source: Bloomberg

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Financial forecast

We expect that Aoyuan Healthy Life will enter a relatively fast growth period with growing demand for property management services and increasing demand for specialized commercial property operators in lower tier cities. We forecast the Company's revenue to grow to Rmb1,771mn in 2021e from Rmb619mn in 2018 with a CAGR of 42%. This will be driven by the contracted GFA growth of residential and non-residential properties, as well as shopping malls. We expect its gross margin to improve moderately in 2019e from 2018 with rebounding margin in commercial operational services segment. Aoyuan Healthy Life's recurring attributable net profit is expected to grow to Rmb293mn in 2021e from Rmb94mn in 2018 with a CAGR of 46%. The Company's growth in profit will be driven by:

1) Revenue to grow at a CAGR of 42% in 2018-2021e.

We expect that both the property management service segment and commercial operational service segment will continually grow in the next 3 years, which is supported by the Parent Group's projects and external customers as well.

We forecast revenue from property management service to grow at a CAGR of 39% in 2018-2021e, as the Parent Group Aoyuan recorded strong contracted sales of GFA of 4.5 million sq.m. in 2017 and 8.9 million sq.m in 2018, compared to Aoyuan Healthy Life's GFA under management of 10.4 million sq.m. as of end of 2018. These will be added to GFA under management in 2019 and 2020. As for the commercial operational services segment, Aoyuan Healthy Life is contracted to provide services to 25 shopping malls with contracted GFA of approximately 1.3 million sq.m.

2) Operating efficiency to improve after 2018

We expect an improvement in efficiency as administration expense to grow slower than revenue growth. We forecast operating expenses including administrative expenses and other expenses to drop to 12.9% in FY19 from 14.4% in FY18.

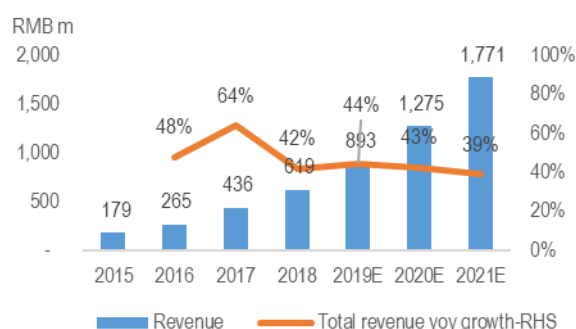
3) Gross margin to steadily improve in FY19e-FY20e.

We forecast overall gross margin will improve moderately from 33.7% in 2018 to 34.4% in 2019e considered the contribution from commercial operational services segment's improved margin. The contraction in gross margin in this segment in 2018 is mainly due to some delayed shopping mall openings in 2H18 and the delayed projects are expected to operate in 2019, which will help improve its gross profit margin.

4) Core net profit to grow at a CAGR of 46% in FY18-FY21e.

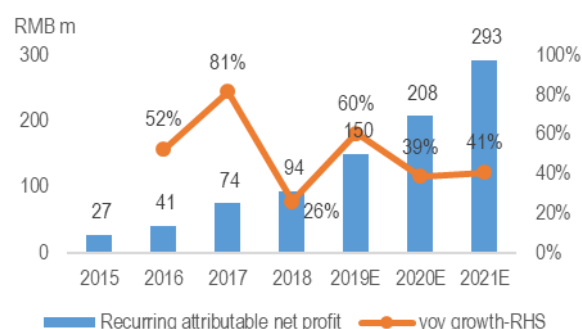
We expect that better margin from commercial operational service segment will improve the Company's gross margin. As a result, recurring net profit is expected to grow from Rmb94mn in 2018 to Rmb293mn in 2021e, representing 46% of CAGR.

Figure 1: Aoyuan Healthy Life revenue forecast



Source: Company data, AMTD Research

Figure 2: Aoyuan Healthy Life core net profit forecast



Source: Company data, AMTD Research

Figure 3: Aoyuan Healthy Life operating data, per share data and key ratios

Operating data	2016	2017	2018	2019E	2020E	2021E
Revenue-bearing GFA under property management service segment - period end ('000 sq.m.)	7,081	8,566	10,432	13,875	19,424	26,223
Newly added GFA under management ('000 sq.m.)	1,841	1,485	1,866	3,443	5,550	6,799
Aoyuan contracted GFA ('000 sq.m.)	2,979	4,488	8,863	11,079	13,295	15,953
yoy %	58%	51%	97%	25%	20%	20%
Per share data	2016	2017	2018	2019E	2020E	2021E
Basic EPS (Rmb)			0.112	0.170	0.286	0.403
Diluted EPS (Rmb)			0.112	0.170	0.286	0.403
Core EPS (Rmb)			0.134	0.207	0.286	0.403
Core Diluted EPS (Rmb)			0.134	0.207	0.286	0.403
DPS (Rmb)				0.053	0.083	0.115
Key ratios, RMB'000	2016	2017	2018	2019E	2020E	2021E
Growth rate yoy %						
Revenue	48%	64%	42%	44%	43%	39%
Gross profit	66%	80%	41%	47%	43%	40%
EBITDA	57%	69%	10%	52%	69%	41%
PBT	58%	69%	8%	58%	69%	41%
Attributable net profit	52%	81%	26%	60%	39%	41%
Revenue-bearing GFA under property management service segment - period end	35%	21%	22%	33%	40%	35%
ROE	61.7%	73.0%	66.2%	28.9%	22.4%	24.8%
ROA	16.0%	15.5%	14.6%	10.5%	15.7%	18.0%
Recurring ROE	61.7%	77.9%	79.3%	35.2%	22.4%	24.8%
Recurring ROA	10.5%	9.1%	13.9%	9.1%	11.3%	12.8%
Gross margin	31.1%	34.1%	33.7%	34.4%	34.4%	34.6%
EBITDA margin	22.9%	23.5%	18.1%	19.1%	22.7%	23.0%
Recurring EBITDA margin	22.9%	24.5%	20.7%	22.1%	22.7%	23.0%
Net profit margin	15.4%	16.0%	12.6%	13.8%	16.3%	16.5%
Recurring net profit margin	15.4%	17.1%	15.1%	16.8%	16.3%	16.5%
Net cash/(net debt)	83,396	164,373	198,552	889,646	1,121,450	1,457,245
Revenue mix						
Property management services	84.7%	72.9%	73.2%	70.3%	69.5%	69.0%
Commercial operational services	15.3%	27.1%	26.8%	29.7%	30.5%	31.0%
Gross profit mix						
Property management services	82.8%	66.3%	70.1%	63.4%	63.6%	63.2%
Commercial operational services	17.2%	33.7%	29.9%	36.6%	36.4%	36.8%

Source: Company data, AMTD Research

Figure 4: Aoyuan Healthy Life P&L

PnL, RMB'000	2016	2017	2018	2019E	2020E	2021E
Revenue	265,440	435,977	618,835	893,418	1,274,587	1,770,552
Property management services	224,876	317,933	453,228	628,405	885,438	1,221,680
Commercial operational services	40,564	118,044	165,607	265,013	389,150	548,872
Cost of services	(182,865)	(287,519)	(410,082)	(586,247)	(836,123)	(1,158,242)
Gross profit	82,575	148,458	208,753	307,171	438,464	612,310
Gross margin	31.1%	34.1%	33.7%	34.4%	34.4%	34.6%
Other income and other gains and losses	1,132	762	6,629	8,156	15,065	19,306
Impairment losses on trade receivables	(139)	(1,953)	(987)	(484)	(495)	(708)
Administrative expenses and other expenses	(23,955)	(41,894)	(89,045)	(115,251)	(161,873)	(221,319)
Selling and distribution expenses	(220)	(321)	(1,331)	(1,382)	(1,948)	(2,688)
IPO expenses	-	(4,646)	(15,513)	(27,000)	-	-
Interests on bank borrowing			(11)			
Profit before tax	59,393	100,406	108,495	171,209	289,213	406,902
Income tax expense	(18,365)	(30,474)	(30,240)	(47,939)	(80,980)	(113,932)
Profit for the year	41,028	69,932	78,255	123,271	208,233	292,969
Non-controlling interests	23	182	111	123	208	293
Attributable net profit	41,005	69,750	78,144	123,147	208,025	292,676
Recurring attributable net profit	41,005	74,396	93,657	150,147	208,025	292,676
Dividend paid	-	-	169,571	38,500	60,059	83,210
Dividend payout ratio	-	-	40%	40%	40%	40%
Dividends declared	-	-	38,500	60,059	83,210	117,070

Source: Company data, AMTD Research

Figure 5: Aoyuan Healthy Life balance sheet

Balance Sheet, RMB'000	2016	2017	2018	2019E	2020E	2021E
Total non-current assets	12,829	17,873	29,962	28,305	27,820	27,432
Property, plant and equipment	4,763	5,580	12,694	12,694	12,694	12,694
Intangible assets	1,990	3,929	3,031	2,425	1,940	1,552
Goodwill	1,602	3,491	3,491	3,491	3,491	3,491
Deferred tax assets	498	1,508	7,389	7,389	7,389	7,389
Deposits paid for acquisition of property, plant and equipment			1,051			
Deferred contract costs	3,976	3,365	2,306	2,306	2,306	2,306
Amount due from a fellow subsidiary	-	-	-	-	-	-
Total current assets	317,449	553,006	473,084	1,146,647	1,443,993	1,754,015
Inventories	118	93	77	200	200	201
Trade and other receivables	33,539	87,264	87,045	82,393	114,387	106,135
Deferred contract costs	4,818	11,182	9,492	8,376	12,017	(8,476)
Amounts due from fellow subsidiaries	191,687	283,442	175,933	163,566	193,319	196,203
Amounts due from a non-controlling shareholder of a subsidiary	-	-	-	-	-	-
Amounts due from related parties	3,891	6,652	206	687	842	928
Amount due from a subsidiary	-	-	-	-	-	-
Advance to related parties			-	-	-	-
Bank balances and cash	83,396	164,373	200,331	891,425	1,123,229	1,459,024
Total assets	330,278	570,879	503,046	1,174,952	1,471,813	1,781,447
Total current liabilities	248,936	458,903	375,998	347,634	436,261	452,926
Trade and other payables	103,653	196,500	226,233	220,476	263,867	267,298
Contract liabilities	35,438	45,078	120,789	93,631	135,794	147,494
Amounts due to fellow subsidiaries	73,017	152,036	6,659	11,209	14,282	15,817
Amount due to a subsidiary	-	-	-	-	-	-
Tax liabilities	36,828	65,289	20,538	20,538	20,538	20,538
Bank borrowing			1,779	1,779	1,779	1,779
Non-current liabilities	498	982	757	757	757	757
Deferred tax liability	498	982	757	757	757	757
Total liability	249,434	459,885	376,755	348,391	437,018	453,683
Capital and reserves						
Paid-in capital/share capital	-	-	-	-	-	-
Retained earnings (accumulated deficit)	87,380	157,130	81,216	119,716	179,775	262,985
Reserves	(6,859)	(46,641)	44,459	706,230	854,404	1,064,163
Equity attributable to owners of the Company	80,521	110,489	125,675	825,946	1,034,179	1,327,148
Non-controlling interests	323	505	616	616	616	616
Total equity	80,844	110,994	126,291	826,562	1,034,795	1,327,764

Source: Company data, AMTD Research

Figure 6: Aoyuan Healthy Life cash flow

Statements of cash flows, RMB'000	2016	2017	2018	2019E	2020E	2021E
Cash flows from operating activities						
Profit before tax	59,393	100,406	108,495	171,209	289,213	406,902
Adjustments for:						
Depreciation of property, plant and equipment	1,588	1,861	2,919	2,539	2,539	2,539
Amortisation of intangible assets	105	459	898	606	485	388
Allowance for doubtful trade receivables	139	1,953	987	484	495	708
Exchange gain, net			(5,474)			
Interest on bank borrowing			11			
Bank interest income	(378)	(387)	(320)	(400)	(400)	(400)
Operating cash flows before movements in working capital	60,847	104,292	107,516	174,438	292,332	410,136
Net change in working capital	(37,756)	(63,408)	197,021	(11,318)	22,590	41,731
(Increase) decrease in inventories	(56)	25	16	(123)	-	(1)
Increase in trade and other receivables	(13,157)	(53,828)	2,878	4,168	(32,490)	7,544
Increase in deferred contract costs	(8,461)	(5,753)	2,749	1,116	(3,641)	20,493
(Increase) decrease in amounts due from fellow subsidiaries	(74,812)	(101,887)	77,573	12,367	(29,753)	(2,884)
Decrease (increase) in amounts due from related parties	(2,959)	(2,727)	6,412	(481)	(155)	(86)
Increase (decrease) in trade and other payables	41,922	90,254	29,237	(5,757)	43,391	3,431
Increase in contract liabilities	19,594	9,640	75,711	(27,158)	42,163	11,699
Increase (decrease) in amounts due to fellow subsidiaries	173	868	2,445	4,550	3,073	1,535
Cash generated from operations	23,091	40,884	304,537	163,121	314,922	451,867
Income taxes paid	(12)	(3,139)	(80,950)	(47,939)	(80,980)	(113,932)
Net cash flows from operating activities	23,079	37,745	223,587	115,182	233,942	337,934
Cash flows from investing activities						
Purchase of property, plant and equipment	(1,009)	(2,582)	(10,033)	(1,488)	(2,539)	(2,539)
Deposit paid for acquisition of property, plant and equipment			(1,051)		-	-
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	116	(2,298)	-	-	-	-
Repayment from fellow subsidiaries	2,671	44,901	83,808	-	-	-
Advance to fellow subsidiaries	(16,362)	(34,769)	(322,275)	-	-	-
Repayment from related parties	-	81	87			
Advance to related parties	-	(115)	(53)			
Interest received	378	387	320	400	400	400
Net cash generated from (used in) investing activities	(14,206)	5,605	(249,197)	(1,088)	(2,139)	(2,139)
Cash flows from financing activities						
New bank loans raised			1,779	-	-	-
Advance from fellow subsidiaries	37,735	57,264	44,492	-	-	-
Repayment to fellow subsidiaries	(2,607)	(5,167)	(84,799)	-	-	-
Issue of shares	-	-	74,511	577,000	-	-
Capital contribution from a non-controlling shareholder	300	-	10,000	-	-	-
Share issue cost paid	-	(742)	(3,746)	-	-	-
Net cash (used in) generated from financing activities	35,428	51,355	42,237	577,000	-	-
Net increase (decrease) in cash and cash equivalents	44,301	94,705	16,627	691,094	231,803	335,795
Net cash (used in) from Panyu Commercial Property Operational Service Business	(12,934)	(13,728)	18,432	-	-	-
Cash and cash equivalents at the beginning of year/period	52,029	83,396	164,373	200,331	891,425	1,123,229
Effect of foreign exchange rate changes	-	-	899			
Cash and cash equivalents at the end of year/ period	83,396	164,373	200,331	891,425	1,123,229	1,459,024

Source: Company data, AMTD Research

Valuation

DCF valuation – HK\$6.0 per share

Our price target of HK\$6.0 is based on the three-stage discounted cash flow model. This implies 2019e P/E (recurring) of 25.6x. We use a three-stage DCF model to derive our valuation. In the first stage (the fast growth stage), we forecast explicitly five year of free cash flows to the enterprise. In the second stage (medium term), the growth rates are gradually phased down to the perpetual growth rate. We derive the terminal multiple using the standard $(1+g)/(wacc-g)$. This cash flow stream is discounted using 11.7% weighted average cost of capital (“WACC”) assumption.

Figure 7: Derivation of DCF valuation

Stage 1	518
Stage 2	1,037
Stage 3	1,406
Net cash	890
Total equity value (Rmb mn)	3,851
Total equity value (HK \$mn)	4,376
Shares outstanding (mn)	726
Dec-19 Price target (HK\$)	6.0
Implied 2019e PE	25.6x
Implied 2020e PE	18.5x

Source: AMTD Research

WACC: We derive a WACC of 11.7% for Aoyuan Healthy Life using: 1) risk-free rate of 4.0%; 2) a 5% equity market risk premium. We use 1.8 as the beta for Aoyuan Healthy Life, reference the 1.8 average beta for property management service and commercial operational service providers listed in the H-share market.

Figure 8: WACC assumption

Risk-free rate	4.0%
Beta	1.8
Equity risk premium	5.0%
Cost-of-equity (%)	13%
Debt to equity ratio (%)	30%
Tax rate (%)	25%
Cost of debt	10%
WACC (%)	11.7%
Perpetual growth rate	2%
Retention rate	30%
Perpetual ROIC	6.7%

Source: AMTD Research

Comparable

We identify Aoyuan Healthy Life's comparable: PRC property developer affiliated property management service providers listed in Hong Kong. The peers are trading on average at around 18.0x 2019e PE. We assume a valuation premium for Aoyuan Healthy Life as its revenue CAGR in 2018-2021e estimated to grow significantly faster than the peers' average level.

Figure 9: Aoyuan Healthy Life valuation comparable

	Ticker	Market cap (US\$ m)	P/E			Dividend yield %		Revenue CAGR	EPS CAGR
			2018	2019e	2020e	2019e	2020e	2018-2021e	2018-2021e
COUNTRY GARDEN SERVICES	6098.HK	4,869	34.1	26.9	21.3	0.9%	1.2%	39%	49%
GREENTOWN SERVICE GROUP	2869.HK	2,024	29.4	22.6	17.4	1.5%	2.0%	28%	50%
A-LIVING SERVICES	3319.HK	1,814	15.2	11.9	9.1	3.2%	4.1%	44%	66%
CHINA OVERSEAS PROPERTY	2669.HK	1,466	28.6	22.6	18.2	1.4%	1.8%	17%	43%
COLOUR LIFE SERVICES GROUP	1778.HK	779	10.8	8.6	7.1	4.8%	5.8%	15%	13%
XINCHENGYUE HOLDINGS	1755.HK	620	21.8	19.3	11.1	na	na	52%	37%
EVER SUNSHINE LIFESTYLE	1995.HK	570	29.0	21.4	13.0	1.6%	2.3%	52%	37%
KAISA PROPERTY HOLDINGS	2168.HK	182	17.9	10.4	6.9	2.3%	2.9%	29%	21%
Average			23.3	18.0	13.0	2.3%	2.9%	35%	40%
Aoyuan Healthy Life	3662.HK	370	Trailing PE 32.4			1.3%	2.1%	42%	53%

Priced as of 23 May 2019; Source: Bloomberg, WIND, AMTD Research

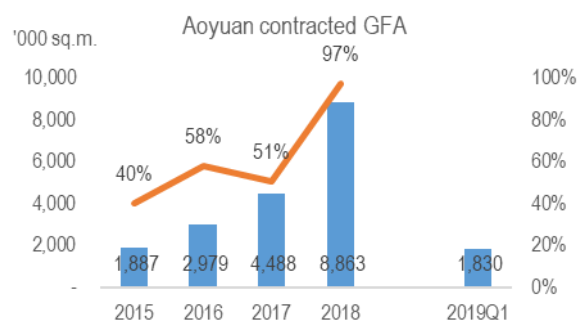
High growth visibility in property management service

Parent Group Aoyuan strong contracted sales locking in FY19 earnings growth

Aoyuan Healthy Life provides a wide range of property management services including (i) sales assistance services to property developers during their pre-sale activities such as cleaning, security and maintenance of pre-sale display units and sales offices; (ii) a range of property management services to property developers, property owners or property owners' associations such as security, cleaning, gardening and repair and maintenance services at the pre-delivery and post-delivery stages; and (iii) community value-added services to property owners or residents of its managed properties, such as common area and advertisement space leasing services and home living assistance services. The Company's management portfolio covers both residential properties and non-residential properties such as serviced apartments, office buildings and kindergartens.

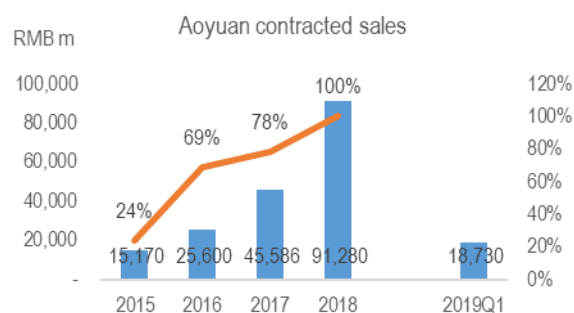
On 31 December 2018, Aoyuan Healthy Life provided property management services for 61 properties in 25 cities of 11 provinces, municipalities and autonomous regions in China, with the total GFA under management of property management business exceeded 10.4 million square meters. The Parent Group Aoyuan contributed the majority of the Company's GFA under management. Aoyuan recorded yoy increases of 78% and 100% in contracted sales in 2017 and 2018, respectively. Generally, it will take approximately two years to deliver the projects after its sales. Therefore, it will take around the same period to reflect on Aoyuan Healthy Life's earnings growth. The delivery of Parent Group's projects will stably drive Aoyuan Healthy Life's revenue growth and bring in strong cash flows. Based on Aoyuan's contracted GFA in 2017 and 2018 and the assumption of a 25% growth in 2019e, we conservatively estimate Aoyuan Healthy Life's property management GFA to increase by 3.4 million/5.6 million/6.8 million sq.m. in FY19-21e.

Figure 10: Aoyuan's contracted GFA nearly doubled in 2018

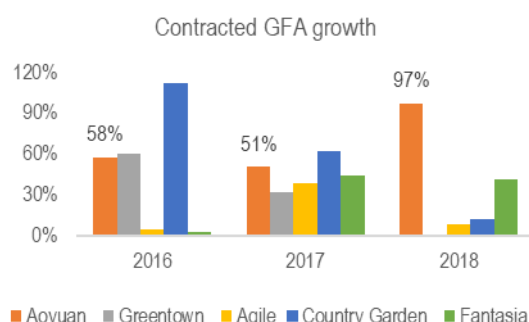


Source: Aoyuan

Figure 11: Aoyuan's contracted sales grew rapidly over recent years



Source: Aoyuan

Figure 12: Aoyuan recorded fastest contracted GFA growth among major developers in 2018

Source: Aoyuan, Greentown, Agile, Country Garden, Fantasia

Figure 13: Major developers contracted GFA comparison

'000 sq.m.	Aoyuan	Greentown	Agile	Country Garden	Fantasia
2015	1,890	3,900	5,070	17,670	1,289
2016	2,980	6,260	5,302	37,470	1,325
2017	4,490	8,270	7,360	60,660	1,910
2018	8,863	8,120	7,977	67,700	2,699
2019 Q1	1,830	1,190	1,712	12,001	434

Source: Aoyuan, Greentown, Agile, Country Garden, Fantasia

Given the strong organic growth from projects delivered by the Parent Group and potential cooperation with independent third-party developers, we expect Aoyuan Healthy Life's GFA under management to reach 13.9 million sq.m, 19.4 million sq.m, and 26.2 million sq.m in FY19-21e, respectively, representing a 36% CAGR in 2018-2021e. Meanwhile, we don't see a significant upward trend in overall fee rates of property management services. Therefore, we expect Aoyuan Healthy Life's average management fee rates in this segment to remain stable in the near future.

Furthermore, Aoyuan Healthy Life also provides sales assistance services and community value-added services under property management services segment. We estimate sales assistance services to grow 25%, 20%, 20% in 2019-2021e, respectively, which are in line with our assumption of the Parent Group's contracted sales. For value-added services, we believe this section has a great potential in the long-term whereas we expect it will remain at a steady growth rate of around 30% annually in 2019-2021e.

In conclusion, we expect Aoyuan Healthy Life's property management services segment revenue of Rmb628mn, Rmb885mn, Rmb1,222mn in 2019e, 2020e and 2021e, respectively, a strong growth from Rmb453mn in 2018.

Figure 14: Aoyuan Healthy Life property management services revenue forecast breakdown and GFA forecast

RMB'000	2016	2017	2018	2019E	2020E	2021E
Property management services revenue	224,876	317,933	453,228	628,405	885,438	1,221,680
Property management services fee income	173,033	235,086	305,997	439,534	652,269	933,396
Sales assistance services	28,000	43,920	98,907	123,634	148,361	178,033
Community value-added services	23,843	38,927	48,324	65,237	84,809	110,251
Revenue yoy%	51%	41%	43%	38.7%	40.9%	38.0%
Property management services fee income	51%	36%	30%	43.6%	48.4%	43.1%
Sales assistance services	28%	57%	125%	25.0%	20.0%	20.0%
Community value-added services	89%	63%	24%	35.0%	30.0%	30.0%
GFA Under management ('000 sq.m.)	7,081	8,566	10,432	13,875	19,424	26,223
Residential properties	4,951	6,311	-	10,128	14,180	19,143
Non-residential properties	2,130	2,255	-	3,746	5,245	7,080
GFA Under management yoy%	35.1%	21.0%	21.8%	33.0%	40.0%	35.0%
Average management fee (Rmb/sqm/month)	2.0	2.3	2.4	2.6	2.8	3.0

Source: Company data, AMTD Research

Risks

Increasing labor costs

The property management services market is labor intensive as it involves a large number of employees such as security guards, cleaners and maintainers. Labor cost accounted for a substantial portion of Aoyuan Healthy Life's cost of sales. For the years ended 31 December 2015, 2016, 2017 and 2018, Aoyuan Healthy Life's labor costs accounted for approximately 60.9%, 64.8%, 63.5% and 61.6% of its total cost of services, respectively. In addition, the minimum monthly wage is increasing continuously in recent years. As the Company mostly charges property management fees on a lump sum basis, it may not be able to increase management fees sufficiently. If the Company fails to alleviate the pressure of increasing labor costs, the rising costs may reduce the profit margin and have an adverse effect on the business.

Delays or defaults in collection of property management fees

Aoyuan Healthy Life may encounter difficulties when collecting property management fees in communities with relatively high vacancy rates. Its collection measures may not be effective. The Company's allowance for impairment of trade receivables amounted to RMB1.5 million, RMB1.6 million, RMB3.6 million and RMB5.2million as at 31 December 2015, 2016, 2017 and 2018, respectively. If actual recoverability is lower than expected, or that its past allowance for impairment of trade receivables becomes insufficient considering any new information, the Company may need to provide for an additional allowance for impairment of trade receivables, which could in turn materially and adversely affect its business, financial condition and results of operations.

Risks related to the operations of the China Aoyuan Group Limited and its subsidiaries ("Parent Group")

A significant portion of Aoyuan Healthy Life's property management service and commercial operational service contracts is related to the management of properties that were developed by the Parent Group. For the years ended 31 December 2015, 2016, 2017 and 2018, revenue generated from its provision of property management services to the properties developed by the Parent Group accounted for approximately 99.9%, 98.9%, 97.3% and 94.7% of its total revenue generated from its provision of property management services, while revenue generated from its provision of commercial operational services to the properties developed by the Parent Group accounted for approximately 100.0%, 100.0%, 59.9% and 51.2% of its total revenue generated from its provision of commercial operational services in 2015, 2016, 2017 and 2018, respectively. Therefore, any adverse development in the operations of the Parent Group or its ability to develop new properties may affect Aoyuan Healthy Life's ability to procure new property management service and commercial operational service contracts.

Diversified services may not grow as planned

Aoyuan Healthy Life has set up and maintained two traditional Chinese medicine centers and a medical beauty clinic at its managed properties to diversify its diversified service offering. The Company needs to recruit and train new managers and other employees, build operations and reputation, and understand the needs and preference of consumers, within a relatively short period of time. As the Company may have limited knowledge of or have little or no prior business experience in the provision of new services, it may face difficulties in such industries. In such event, the Company's business, financial position and results of operations could be materially and adversely affected.

Management strategy

Scale up commercial operational service business

Aoyuan Healthy Life plans to increase its market share of the commercial operational service industry by expanding total GFA under management in existing and new markets and proactively obtaining new engagements from independent third-party property developers. Leveraging on its established brand name and the opportunities brought by rapid urbanization, growth of emerging cities and rising purchasing power of ordinary households, the Company plans to selectively evaluate opportunities for commercial operational services with a focus on third and fourth-tier cities in China with high population and growth potentials. The Company has shortlisted the cities it plans to expand into in the next three years based on city size, population, disposable income and local market competition. For example, it plans to enter into new markets in Zhanjiang, Huizhou, Guilin, Beihai and Loudi. These cities enjoy relatively low operating costs for providing commercial operational services as compared to first and second-tier cities, which may enable the Company to achieve higher profit margins in respect of commercial operational services.

Expand property management service portfolio

Aoyuan Healthy Life plans to expand its property management service portfolio by extending its services to various types of properties. In addition to providing property management services to residential properties, the Company had provided property management services to various non-residential properties such as serviced apartments, office buildings and kindergartens. The Company seeks to continue to expand its property management service portfolio to strengthen its expertise in managing different types of properties. In particular, the Company targets to provide property management services to properties such as serviced apartments, high-end villas, office buildings, business parks, schools and hospitals, for which it will generally be able to charge higher property management fees than for residential properties.

Expand into medical industry to diversify revenue streams

Aoyuan Healthy Life plans to explore opportunities for providing diversified services and assess the feasibility of providing various services such as medical beauty services and enabling access to online consultation service platforms operated by third parties from its O2O platforms. The Company has entered into various strategic cooperation agreements with its strategic partners. For medical beauty services, in August 2018, the Company entered into a strategic cooperation agreement with a Korean medical aesthetic service provider with 13 branches under the brand name "PPEUM" in Seoul, Korea focusing on both non-medical beauty services and medical aesthetic services, pursuant to which the service provider will provide the Company with training on beauty service skills and techniques, and advice on operation and management of medical beauty clinics. For access to online consultation service platforms operated by third parties, in August 2018, the Company entered into two strategic cooperation agreements with two strategic partners, pursuant to which it will cooperate with them to enable access to their online medical consultation service platforms, namely "Chunyu Yisheng" and "Health 160", respectively, from its O2O platforms.

Greater emphasis on O2O platforms to enhance service standards

Aoyuan Healthy Life intends to continue to devote resources to develop and upgrade its O2O platforms with an aim to uplifting its customers' experience. As at 31 December 2018, "Aoyuejia" (奥悦家) mobile application covered 56 residential properties managed by the Company, and had approximately 27,700 registered users. The Company intends to expand the coverage of its mobile application "Aoyuan Property" to all of its managed residential properties and increase the functionalities of such mobile application. While users benefit from the convenience brought by its O2O platforms, the Company obtains users' data on a continuous basis which enables it to establish a big data analytics platform, which will in turn allow the Company to better understand their demand, analyze their

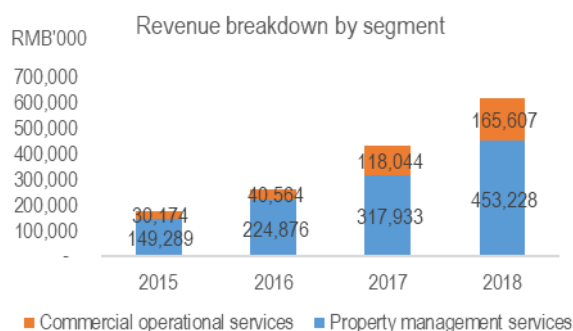
behavioral patterns and strategies its future development. The first-hand consumer data collected will become valuable market intelligence for tenants or property owners of its managed shopping malls which can be used to strategize their sales and marketing activities with an aim to increasing consumer traffic flow at its managed shopping malls. Accordingly, the big data analytics platform will serve to create additional value of its commercial operational services for tenants or property owners of its managed shopping malls.

Business model

Aoyuan Healthy Life is a leading property management service and commercial operational service provider in the PRC. The Company's revenue is mainly derived from providing property management services for residential and non-residential properties and commercial operational services for shopping malls. As at 31 December 2018, Aoyuan Healthy Life provided property management services to 61 properties in 25 cities across 11 provinces, municipalities and autonomous regions in the PRC with a total GFA under management of property management business exceeded 10.4 million square meters. It also provided commercial operational services to nine shopping malls in operation with GFA under management of approximately 424,000 sq.m. in seven cities in the PRC, and contracted to provide commercial operational services to 25 shopping malls with contracted GFA of approximately 1.3 million sq.m., among which it contracted to provide commercial operation and management services to 22 shopping malls with contracted GFA of approximately 1.1 million sq.m.

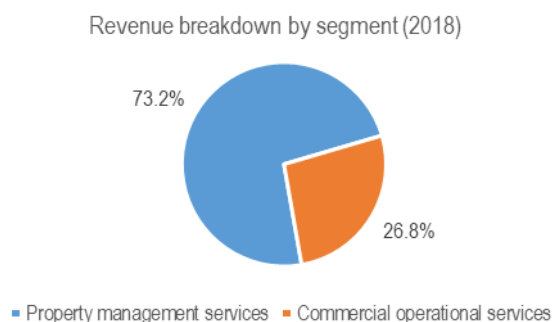
In 2018, income from property management services and commercial operational services accounted for 73.2% and 26.8% of revenue, while income from South China, Southwest China, East China, Northeast China, and Central and North China accounted for 66.7%/11.8%/9.0%/6.9%/5.6% of revenue.

Figure 15: Revenue contribution from commercial operational services segment was gradually rising in 2015-2018



Source: Company data

Figure 16: Commercial operational services contributed close to 27% of revenue in 2018

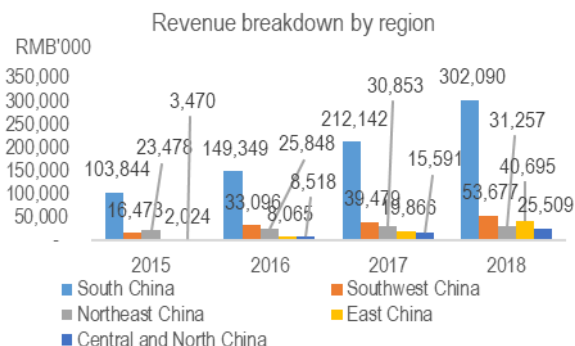


Source: Company data

Expanding geographic presence

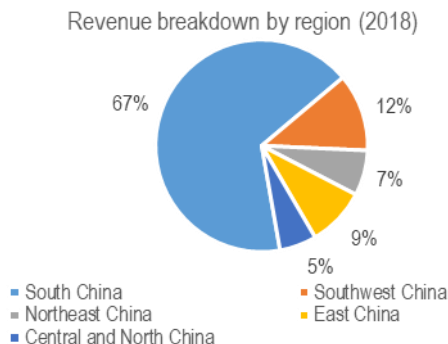
During the Track Record Period, property projects managed by Aoyuan Healthy Life were primarily located in Guangdong Province of South China and its revenue generated from South China region continued to increase. The Company also expanded its operations in other geographic regions including Northeast China, Southwest China, Central and North China and East China. The revenue contribution by geographic region remained relatively stable throughout the Track Record Period.

Figure 17: Aoyuan Healthy Life gradually expanding outside of Guangdong



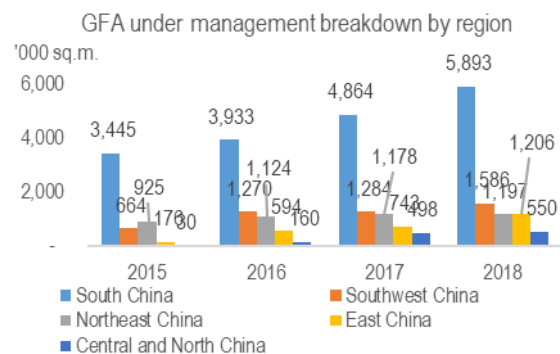
Source: Company data

Figure 18: Aoyuan Healthy Life south region contributed more than two thirds of revenue in 2018



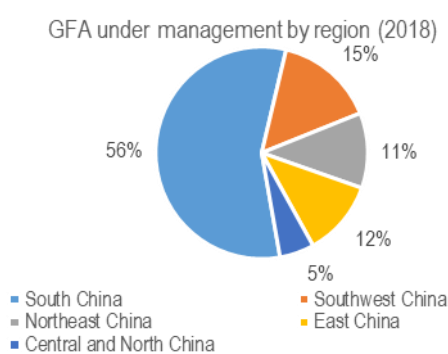
Source: Company data

Figure 19: Aoyuan Healthy Life gradually expanding outside of Guangdong



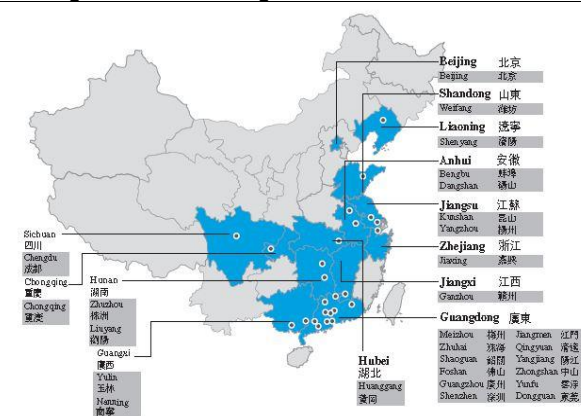
Source: Company data

Figure 20: South region accounted for more than half of the GFA under management in 2018



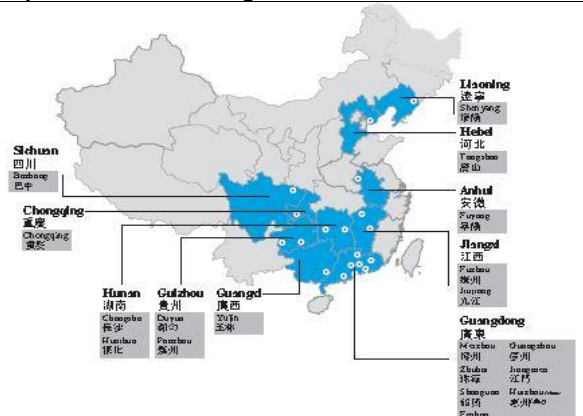
Source: Company data

Figure 21: Geographic presence of the property management service segment as at 31 December 2018



Source: Company data

Figure 22: Geographic presence of the commercial operational service segment as at 31 December 2018



Source: Company data

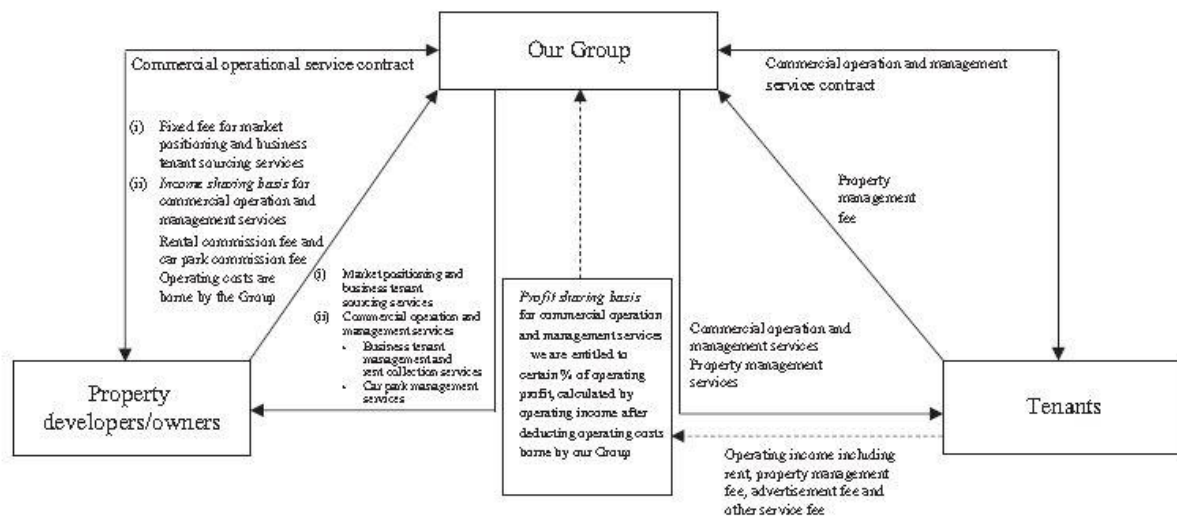
Commercial operational services – a new revenue driver with great potential

Aoyuan Healthy Life provides commercial operational services covering (i) market positioning and business tenant sourcing services to property developers or owners; and (ii) commercial operation and management services. The Company's management

portfolio primarily covers shopping malls. As at 31 December 2018, Aoyuan Healthy Life provided commercial operational services to nine shopping malls in operation with GFA under management of approximately 424,000 sq.m. in seven cities in the PRC, and contracted to provide commercial operational services to 25 shopping malls with contracted GFA of approximately 1.3 million sq.m.

Generally, commercial operational services can be divided into two major phases, which are pre-opening and post opening phases. In the pre-opening phase, the Company provides market positioning and business tenant sourcing services for typically 1-2 years before the grand opening. After the grand opening, the Company receives income from regular management services and rental commission fee.

Figure 23: Aoyuan Healthy Life's commercial operational service segment business model



Source: Company data

Given the strong support from the Parent Group and Aoyuan Healthy Life's expanding capacities on commercial operational services, we expect the Company to fetch around 10 new projects in 2019e and 2020e respectively. Based on the released details of contracted commercial projects and the assumption of average contracted GFA of 40,000 sq.m per shopping mall and Rmb200/sq.m for market positioning and business tenant sourcing service fees, we expect revenue from market positioning and business tenant sourcing services to reach Rmb91m, Rmb99m, Rmb104m in 2019-2021e, respectively. As for the post opening phase, we estimate an occupancy rate of around 70% during the very first two years after the opening as new projects will likely locate in lower-tier cities and it may take longer period to ramp up. We also conservatively estimate a 10% yoy growth for overall fee rates during the operation phase for the same reason that more projects are likely to locate in 3rd/4th tier cities. Therefore, we expect revenue from commercial operation and management services to reach Rmb174mn, Rmb290mn, Rmb445mn in 2019-2020e, respectively. In conclusion, we see revenue from this segment to reach Rmb265mn, Rmb389mn, Rmb549mn in 2019-2021e, respectively, a significant growth from Rmb166mn in 2018.

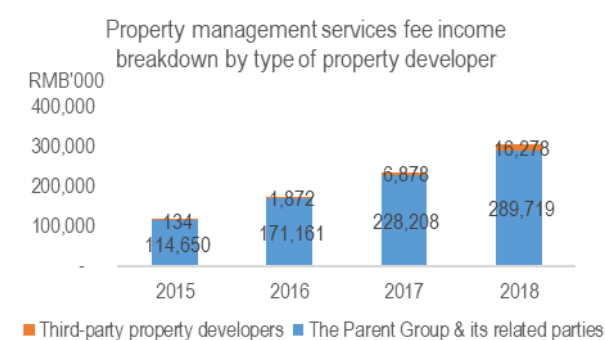
Figure 24: Aoyuan Healthy Life commercial operational services revenue forecast breakdown and GFA forecast

RMB'000	2016	2017	2018	2019E	2020E	2021E
Commercial operational services revenue	40,564	118,044	165,607	265,013	389,150	548,872
Market positioning and business tenant sourcing services	7,638	68,458	63,030	91,245	99,419	104,000
Commercial operation and management services	32,926	49,586	102,577	173,768	289,731	444,872
Revenue yoy%	34%	191%	40%	60.0%	46.8%	41.0%
Market positioning and business tenant sourcing services	na	796%	-8%	44.8%	9.0%	4.6%
Commercial operation and management services	9%	51%	107%	69.4%	66.7%	53.5%
GFA Under management ('000 sq.m.)	15,000	35,000	231,688	386,255	594,840	901,640
GFA Under management yoy%		133%	562%	66.7%	54.0%	51.6%

Source: Company data, AMTD Research

Stable business cooperation with the Parent Group

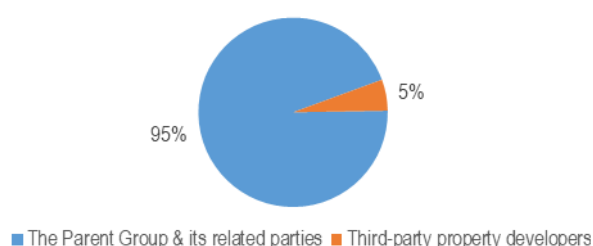
Aoyuan Healthy Life has a long-term and stable business cooperation with the Parent Group, which owns approximately 55% of the Company's shares. The close business cooperation has helped solidify the Company's position as a leading property management service and commercial operational service provider. During the Track Record Period, Aoyuan Healthy Life provided property management services to a substantial portion of property projects developed by the Parent Group, and commercial operational services to all commercial property projects developed by the Parent Group under the "Aoyuan Plaza" and "Aoyuan City Plaza" brand. Having maintained a long-term and stable business cooperation with the Parent Group, we believe the Company is well positioned to continue to benefit from the extensive project reserve of the Parent Group.

Figure 25: Aoyuan Healthy Life properties developed by Parent Group contributed the majority of property management services fee income – but this is changing as contribution from third-party projects increases

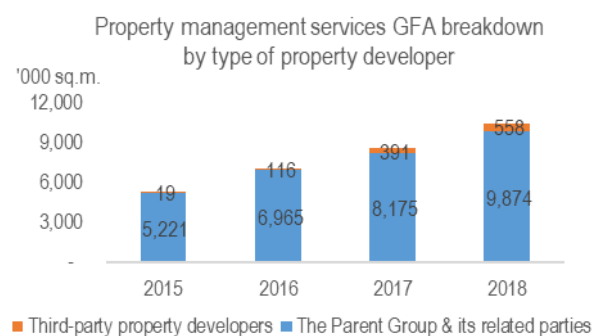
Source: Company data

Figure 26: Continuing strong support from the Parent Group

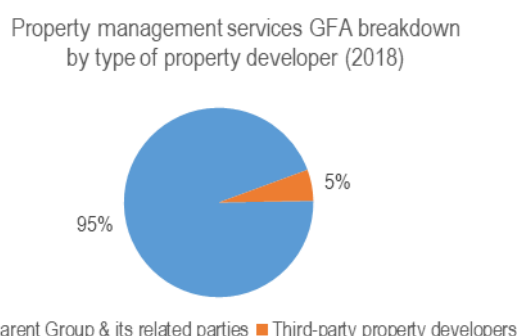
Property management services fee income breakdown by type of property developer (2018)



Source: Company data

Figure 27: Aoyuan Healthy Life robust GFA growth supported by Parent Group strong contracted sales

Source: Company data

Figure 28: Continuing strong support from the Parent Group

Source: Company data

Expand cooperation with third-party developers

Aoyuan Healthy Life is expanding its cooperation with independent property developers. The Company endeavors to expand its cooperation with independent property developers, as demonstrated by the growth in its revenue from independent developers in the property management service segment. As for commercial operational service segment, the Company is contracted to provide commercial operational services to 25 shopping malls with contracted GFA of 1.3 million sq.m. Within this, multiple shopping malls are contracted by third-party landlord. This demonstrates Aoyuan Healthy Life's ability to acquire projects from third-party landlord.

Lump-sum basis revenue model

Aoyuan Healthy Life's revenue generated from property management services was primarily derived from lump sum basis. Under the lump-sum basis revenue model, the Company charges a monthly, fixed and all-inclusive fee for its property management services, which it provides through its own employees and third-party subcontractors. The Company is entitled to retain the full amount of property management fees collected from property developers, property owners and residents as revenue, and bear the costs incurred in providing its property management services and recognize such costs as its

Pricing policy

Aoyuan Healthy Life prices its services by considering factors including (i) local pricing regulations; (ii) management fees charged in nearby and comparable communities; (iii) its estimated costs and target profit margins; and (iv) the scope and quality of its services. The Company regularly evaluates its financial information to ensure that it is collecting sufficient property management fees to sustain its profit margins.

According to Savills' peers studies, Aoyuan Healthy Life's average management fee rates charged for both residential and non-residential properties during the Track Record Period were generally in line with normal industry average. However, its fee rates were relatively lower than that charged by companies on the list of "Top 100 Property Management Companies" in 2017 due to the Company's business focus on third and fourth-tier cities. According to the Savills Report, the average property management fee rate charged by the companies on the list of "Top 100 Property Management Companies" in 2017 was approximately RMB2.3 per sq.m. per month for residential properties and approximately RMB7.0 and RMB7.9 per sq.m. per month for commercial properties and office buildings, respectively.

Figure 29: Relative low rates due to Aoyuan Healthy Life's focus on 3rd/4th -tier cities

Source: Company data

Figure 30: Aoyuan Healthy Life residential properties' fee rates on a rising trend

Source: Company data, AMTD Research. Note: FY18 is based on assumption.

Diversified services

To implement its business strategy of diversifying the service offering to meet the evolving demands of customers, Aoyuan Healthy Life has set up and maintained two traditional Chinese medicine centres and plans to set up and maintain a medical beauty clinic at its managed properties. The Company had obtained the required licenses for operation of the two traditional Chinese medicine centres and submitted the application for the required license for operation of the medical beauty clinic under the relevant PRC laws and regulations to the relevant PRC authorities.

Figure 31: Aoyuan Healthy Life's traditional Chinese medicine and medical beauty services

Centre	Location	Estimated Area (sq.m.)	Actual/Expected Opening date	Type of service
A traditional Chinese medicine centre	Guangzhou Panyu Aoyuan Healthcare Plaza	2,719	Dec-18	Traditional Chinese medicine consultation, complex diseases diagnosis, elderly care services
A traditional Chinese medicine centre	Guangzhou Huangpu Luogang Aoyuan Plaza	260	Dec-18	Traditional Chinese medicine consultation, complex diseases diagnosis, elderly care services
A medical beauty clinic	Guangzhou Wanbo Aoyuan International Centre	1,800	Mar-19	Skin treatments, micro cosmetics and plastic surgeries

Source: Company data

Industry overview

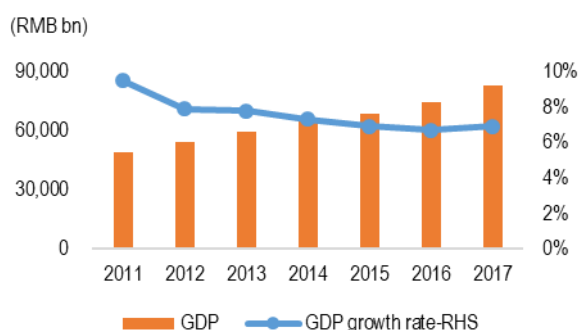
The property management industry in China

Property management service providers in China now provide a wide range of services throughout different stages of development process. They provide sales assistance services, property management services and community value-added services as well. The first property management company in PRC was founded in Shenzhen in 1981. The property management industry has grown rapidly since then. The Provisions on Property Management provides a regulatory framework and more regulations were promulgated, forming an open and fair market system for the industry. The PRC property management industry services a wide range of properties, such as residential communities, office buildings, shopping centre, industrial facilities, schools and hospitals.

Demand for property management services on a rising trend

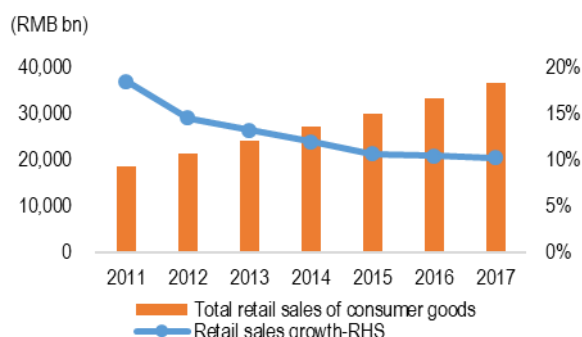
Along with the growth of the economy and consumption level in China, the demand for property management services has been on a rising trend. China's significant growth in urbanisation and per capita disposable income has been the principal driver for the growth of the property management industry. Chinese consumers increasingly demand better living conditions and high-quality property management services, which is another underlying reason for the growth of the PRC property management industry. Following rapid urbanisation and continuous growth in per capita disposable income, the supply of commodity properties also surged. The development of the property management industry in China is supported by the continuous growth in supply and demand for commodity properties. The property management industry will continue to be boosted by this uninterrupted supply leading to a healthy real estate market development.

Figure 32: The Chinese economy recorded high growth during 2011-2017...



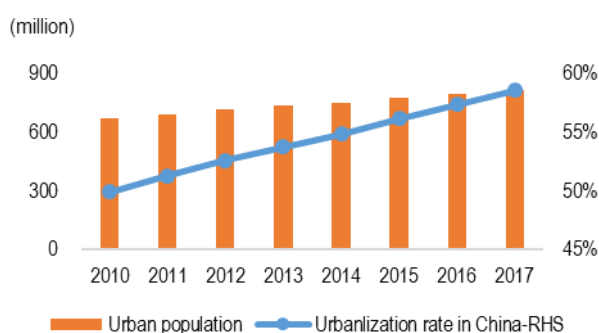
Source: China National Bureau of Statistics

Figure 33: ... so have total retail sales of consumer goods, growing consistently >10% during 2011-2017



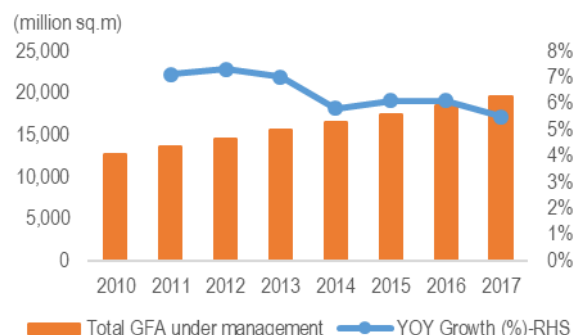
Source: China National Bureau of Statistics

Figure 34: China's rapid urbanization in recent years



Source: China National Bureau of Statistics

Figure 35: The total GFA of properties under management in China have increased rapidly

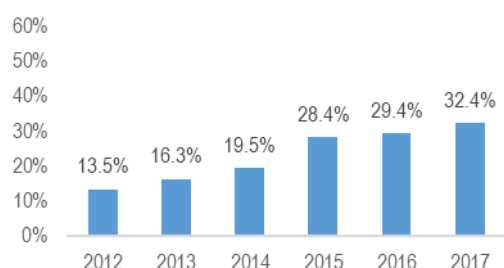


Source: China Property Management Institute, Savills Report

Increased market concentration

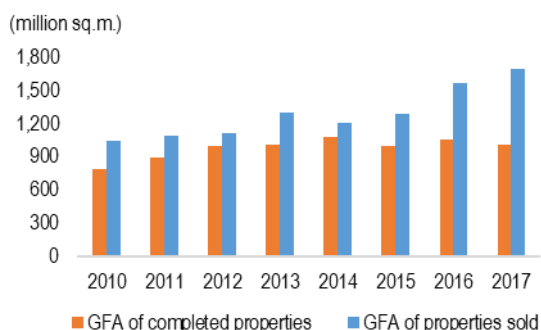
In the current property management market in China, most property developers appoint an affiliated company or have their own teams to manage the properties. As the market matures, large-scale property owner-affiliated property operators have gradually achieved economies of scale. As a result, the property management sector will become increasingly concentrated and leading players are likely to continue to excel. Top players actively improve their strategic layout and accelerate their expansion to increase their market share and achieve better results of operations, primarily through organic growth and mergers and acquisitions. Many property management companies use mergers and acquisitions as tools to mitigate risks when expanding into new markets, which can help new entrants access the local market by leveraging the resources of the merged or acquired entity which have already been established in the local market.

Figure 36: Market concentration of top 100 property management companies in China



Source: China Property Management Institute, China Index Academy, Savills Report

Figure 37: The supply of commodity properties surged in China



Source: National Bureau of Statistics of the PRC

Business models of commercial operational service providers

The commercial operational service industry refers to the provision of consultancy and/or operational services to commercial properties from design and construction stage to handover and operation stage, and confines to different types of shopping centers to other components and formats including open or enclosed strip centers within large scale mixed-use developments. There is still no fee or practice standardization followed in the industry. In general, the fees charged by commercial operational service providers will be agreed upon by both parties, depending upon the nature of service provided at different stages of development.

Figure 38: Typical revenue model for commercial operational service providers

Period	Development stage	Service provided	Fee basis
Pre-opening	Design and construction	Consultancy: location, accessibility and market positioning studies, advice on shop drawings and as-built drawings, advice on concept design and use of material, tenants' fit-out supervision	Lump-sum basis
		Letting advice: devising tenant mix, introduction of incoming tenants	Lump-sum basis
Post-opening	Post construction/handover	Operation and management service, marketing and promotion, retail management and leasing management, property management, asset enhancement scheme/initiative	Revenue or income-sharing basis, the service provider will bear operating costs and/or expenses

Source: Savills Report

Growth in supply of commercial properties drives the demand for commercial operational service providers

According to Savills Report, shopping centres with total GFA of 30,000 sq.m. or above which successfully opened in 2017 reached 558 in number representing an increase

approximately of 15.1% year-on-year. In 2018, approximately 921 such shopping malls have targeted to open for operation with a targeted GFA of approximately 83.0 million sq.m. Among these shopping centres, the largest portion are those located in third- or fourth-tier cities, occupying 51.2% and 49.0% in terms of number and GFA respectively. According to Savills, average shopping centre rents in a total of 19 cities recorded a year-on-year growth of 2% to RMB1,645/sq.m/year. In addition, average rental achieved in shopping centres operated and managed by professional commercial operational services providers increased 15.4% year-over-year in 2017.

Asset-light approach and strategy

According to Savills Report, commercial operational service providers increasingly prefer an asset light approach in operation. The asset-light approach and strategy relieves commercial operational service providers from financial burden in holding and acquiring assets, and increased the operating efficiency, resulting in a higher profit margin for operators. It also helps boost commercial operational service providers to expand outward at a quicker pace.

IMPORTANT DISCLOSURES

AMTD Investment Ratings

Industry Rating	
Overweight	Industry sector expected to outperform the market over the next 12 months
Neutral	Industry sector expected to perform in-line with the market over the next 12 months
Underweight	Industry sector expected to underperform the market over the next 12 months
Stock Rating	
Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
Sell	Stock with potential loss of over 20% over the next 12 months

Analyst Certification

We, Yiyi Wang and Michelle Li, hereby certify that (i) all of the views expressed in this research report reflect accurately our personal views about the subject company or companies and its or their securities; and (ii) no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this research report, nor is it tied to any specific investment banking transactions performed by AMTD Global Markets Limited.

Firm Disclosure

AMTD Global Markets Limited has an investment banking relationship with Aoyuan Healthy Life Corporation and/or its affiliate(s) within the past 12 months.

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