

Aoyuan Healthy Life Group Company Limited

Post-Acquisition Integration to be 2H20 Key Catalyst

1H20 results are in-line with our expectations. We believe potential 2H20 catalyst will lie in post-acquisition integration of EasyLife and Ningbo Hongjian. We have only factored in a 17% GPM for EasyLife in our earnings forecasts, compared to the 40.1% GPM achieved by Aoyuan HealthyLife in 1H20. Reiterate Buy.

Post-M&A integration of EasyLife and Ningbo Hongjian the key to 2H20

We believe the key potential catalyst to Aoyuan Healthy Life's (Aoyuan HL) 2H20 outlook will be on management's execution to increase EasyLife's profitability post-acquisition. We have only factored in a ~17% GPM for EasyLife in our 2020E estimates, compared to the 40.1% 1H20 GPM achieved by Aoyuan Healthy Life. We believe that if management can implement effective cost control measures on EasyLife post-acquisition, there would be potential upside surprise to our net profit estimates. At 18.7x 2020E P/E (industry average: 35.4x 2020E P/E), we believe market is yet to fully reflect its earnings growth potential and thus reiterate our Buy Rating.

1H20 results in-line, 41% of our 2020E net profit achieved

Aoyuan Healthy Life announced a net profit of RMB111.1m, which represents 41% of our 2020E estimate. Revenue came in at RMB546.9m, rising 40% YoY, and implies 32% of our 2020E estimate. This is in-line with our expectations, as revenues from EasyLife has not yet been reflected in 1H20 results. GP Margins remained strong at 40.1% (1H19: 39.6%). Core net margins (adjusted for 1H19 one-off listing expenses) came in at 20.3% (1H19: 27.0%), due to lower other income and higher tax expenses recognized.

EasyLife and Hongjian M&A transforms Aoyuan HL's investment profile

Aoyuan Healthy Life announced the acquisitions of EasyLife and Ningbo Hongjian during 1H20, which we believe transforms the investment profile of Aoyuan Healthy Life and deserves a re-rating. The stock (18.7x 2020E P/E) has been trading at a discount to industry average (35.4x 2020E P/E) due to (1) lower proportion of third party projects; (2) Higher commercial property related revenues which are impacted by COVID-19; and (3) uncertainty with the execution capability in Aoyuan's Healthcare business expansion. We believe all these have changed significantly since acquiring 25.7m sqm of GFA Under Management through EasyLife and Ningbo Hongjian. These newly acquired projects diversifies Aoyuan Healthy Life's portfolio, as they are mostly third-party projects and also includes government property management contracts.

Prudent Development of Healthcare and Wellness Service Business

We believe management has managed their expansion into Healthcare and Wellness Service Business prudently, which should ease investors' concerns. In the Traditional Chinese Medicine space, company has signed referral agreement with Guangzhou Panyu District Hospital and Guangzhou Hospital of Traditional Chinese Medicine.

Stock trading at attractive valuations of 18.7x 2020E P/E

We believe the stock's valuations of 18.7x 2020E P/E offers investors an attractive entry point. We believe market is yet to fully reflect the transformation in Aoyuan HL's investment profile through the two M&A announced, and thus has re-rating potential. Our TP of HK\$11.18/sh implies 43% upside potential to current share price.

Stock code: 3662.HK

Rating: Buy

Price target (HK\$)	11.18
Current price (HK\$, 14 Aug 2020)	7.80
Upside/downside %	43%
Market cap (HK\$ m)	5,665
Market cap (US\$ m)	731
3M Avg daily turnover (US\$ m)	10.46

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2019	2020e	2021e	2022e
Revenue	901	1,694	2,359	2,927
yoy %	45.6%	88.1%	39.3%	24.1%
Gross Profit	337	491	668	840
yoy %	61.5%	45.8%	36.1%	25.7%
Core NP	178	272	366	459
yoy %	108.4%	69.7%	34.6%	25.3%
Gross margin	37.4%	29.0%	28.3%	28.7%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash
EPS	0.26	0.37	0.50	0.63
DPS	0.10	0.15	0.20	0.25
BPS	1.24	1.45	1.67	1.91

Source: Company data, AMTD Equity Research

Notes: Core NP excludes listing expenses

Valuation

	2019	2020e	2021e	2022e
P/E	26.9	18.7	13.9	11.1
P/BV	5.7	4.8	4.2	3.7
Div. yield	1.4%	2.1%	2.9%	3.6%
ROE	33.5%	28.6%	32.3%	35.3%
ROA	17.2%	17.7%	20.6%	22.5%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

Jacky Chan
 Analyst

+852 3163 3323

jacky.chan@amtdgroup.com
Karen Huang
 Associate

+852 3163 3376

karen.huang@amtdgroup.com

Figure 1: Aoyuan Healthy Life 1H20 Results Summary

1HFY20 Results (RMB '000)	1HFY20A	FY20E	1H20/20E	1HFY19A	YoY/Chg
Property management services	412,226	1,305,023	32%	287,480	43%
Property management services fee income	233,239	1,006,576	23%	178,822	30%
Major owners value-added services	106,203	213,639	50%	77,816	36%
Community value-added services and others	72,784	84,809	86%	30,842	136%
Commercial operational services	134,666	389,150	35%	104,481	29%
Commercial operation and management services	109,308	99,419	110%	75,625	45%
Market positioning and business tenant sourcing services	25,358	289,731	9%	28,856	-12%
Total Revenue	546,892	1,694,173	32%	391,961	40%
Cost of services	(327,377)	(1,202,881)	27%	(236,858)	38%
Gross Profit	219,515	491,292	45%	155,103	42%
Other income	7,550	15,065	50%	20,554	-63%
Impairment losses under expected credit loss model, net of reversal	(3,771)	(476)	792%	(1,158)	226%
Administrative expenses and other expenses	(57,685)	(118,592)	49%	(45,884)	26%
Selling and distribution expenses	(662)	(2,871)	23%	(1,376)	-52%
Listing expenses	-	-	N/A	(15,920)	-100%
Finance costs	(5,863)	-	N/A	(293)	1901%
Gain on deemed disposal of subsidiaries	4,496	-	N/A	4,576	-2%
Share of results of joint ventures	(3,718)	-	N/A	-	N/A
Share of results of joint ventures	(659)	-	N/A	-	N/A
Profit before tax	159,203	384,417	41%	115,602	38%
Income tax expense	(47,549)	(107,637)	44%	(25,551)	86%
Profit for the year	111,654	276,780	40%	90,051	24%
Non-controlling interests	579	4,705	12%	110	426%
Attributable net profit	111,075	272,075	41%	89,941	23%
Core attributable NP	111,075	272,075	41%	105,861	5%
Key Ratios					
GP Margins	40.1%	29.0%		39.6%	0.6%
Property management services	39.7%	31.6%		37.2%	2.5%
Commercial operational services	41.5%	44.5%		46.1%	-4.6%
Core Net Margins	20.3%	16.1%		27.0%	-6.7%
	1HFY20A	FY20E		FY19A	YoY/Chg
Net Debt to Equity	Net cash	Net cash		Net cash	N/A
Total Asset to Equity	1.8x	1.6x		1.6x	0.2x

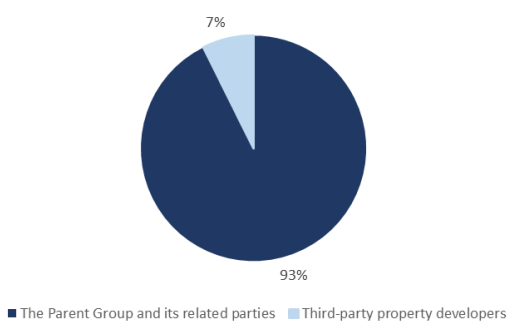
Source: Company data, AMTD Equity Research

Notes: Core attributable Net Profit excludes one-off listing expenses in 1H19

Impact From EasyLife and Ningbo Hongjian Acquisitions

Figure 2: As of 1H20, third party projects only contributed to 7% of total GFA under management

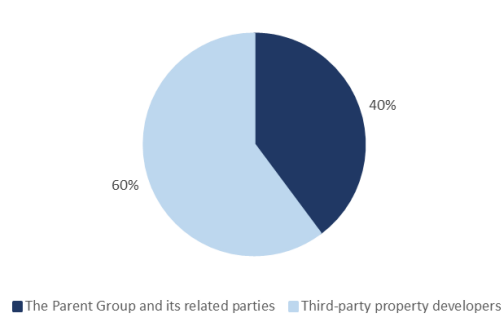
GFA under Management Breakdown As of 1H20



Source: Company Data, AMTD Research

Figure 3: By End-2020E, we estimate third party projects would contribute to 60% of total GFA under management

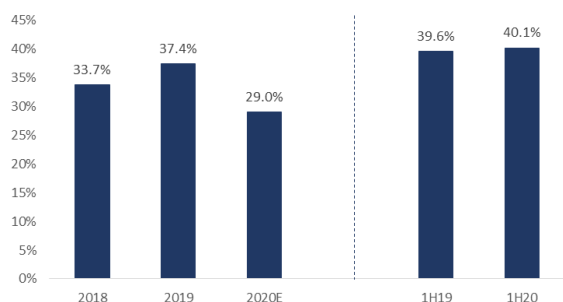
GFA under Management Breakdown As of 2020E



Source: Company Data, AMTD Research Estimates

Figure 4: In 2020, we estimate the overall gross margin would decline to 29.0%...

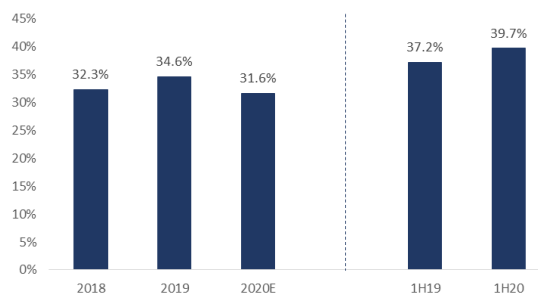
Overall GPM



Source: Company Data, AMTD Research Estimates

Figure 5: ...due to the drag of property management services after EasyLife is consolidated in the report

GPM of Property Management Services



Source: Company Data, AMTD Research Estimates

Valuation

Figure 6: China Property Management Companies: Peers Valuation comparison

Date Ticker	14/8/2020 Name(EN)	Share Price (HK\$)	Mkt cap (USD mn)	P/E			P/B			Div. yield FY19
				FY19	FY20E	FY21E	FY19	FY20E	FY21E	
China Property Management										
6098 HK	Country Garden Services	50.20	17,872	72.8x	54.5x	39.7x	23.0x	17.9x	12.7x	0.3%
3319 HK	A-Living Services	43.95	7,561	43.5x	30.9x	23.6x	8.6x	7.2x	6.2x	1.2%
6049 HK	Poly PPT Dev	78.50	5,604	58.7x	53.7x	39.2x	7.5x	6.8x	6.1x	0.4%
2869 HK	Greentown Service	10.16	4,217	54.6x	43.0x	33.0x	9.4x	6.3x	5.7x	0.8%
2669 HK	China Overseas PH	7.82	3,316	49.3x	37.7x	29.2x	17.3x	12.8x	9.7x	0.6%
1995 HK	Eversunshine	15.12	3,259	94.4x	58.5x	38.1x	18.4x	11.5x	9.5x	0.4%
1755 HK	S-Enjoy Services	27.25	2,876	72.9x	47.8x	31.9x	22.0x	16.5x	12.4x	0.7%
9909 HK	Powerlong CM	21.55	1,728	44.6x	42.5x	29.2x	7.4x	6.5x	5.7x	0.0%
9983 HK	CC New Life*	10.56	1,696	NA	27.9x	25.6x	NA	15.7x	12.5x	NA
9928 HK	Times Neighbor	11.90	1,513	66.1x	44.4x	25.9x	11.0x	7.1x	6.0x	0.3%
2606 HK	Languang Justbon	56.00	1,287	16.4x	15.2x	11.5x	4.1x	3.5x	2.9x	2.4%
1778 HK	Colour Life	3.99	749	9.9x	9.5x	8.6x	1.3x	1.2x	1.1x	2.6%
3662 HK	Aoyuan Healthy Life*	7.80	731	26.9x	18.7x	13.9x	5.7x	4.8x	4.2x	1.4%
3316 HK	Binjiang Services	18.48	659	34.6x	29.0x	22.1x	6.4x	NA	NA	1.4%
2168 HK	Kaisa Prosperity	32.70	650	25.1x	18.1x	13.1x	6.3x	3.8x	3.2x	1.6%
Total/Average			53,718	47.8x	35.4x	25.6x	10.6x	8.7x	7.0x	1.0%

Source: Bloomberg Estimates, *AMTD Research Estimates for AMTD Coverage Stocks

Note: As of 14th Aug 2020

IMPORTANT DISCLOSURES

AMTD Investment Ratings

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

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AMTD Global Markets Limited

Address: 23/F - 25/F, Nexxus Building, No. 41 Connaught Road Central, Central, Hong Kong

Tel: (852) 3163-3288 **Fax:** (852) 3163-3289

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