

Aoyuan Healthy Life Group Company Limited

Dual Engine To Propel Long Term Growth

We believe the acquisition of Liantianmei Corporate Management is a major step forward in the development of Aoyuan's Healthcare Business, securing the company's long term growth prospects. Following the latest acquisition, we believe Aoyuan is on track to deliver a 51% YoY 2021E net profit growth. We reiterate our Buy Rating.

Aoyuan ahead of peers in monetizing existing community

We believe Aoyuan Healthy Life is ahead of its peers in terms of driving monetization of its customer base through Value-Added Services in the form of Healthcare Beauty Services. When many of its property management peers are still focusing on the Red Ocean Strategy in scaling up the property management business, Aoyuan Healthy Life has entered into the Blue Ocean in combining Property Management with Healthcare Services. We believe market's concerns with the execution risks are overdone, as the company now has a healthcare specialist team to implement and execute the expansion plans. We believe the potential financial rewards and business diversification outweigh such concerns. We reiterate our Buy Rating.

New acquisition adds key competence to core Healthcare Division

On 18 Sep 2020, Aoyuan Healthy Life announced to acquire an additional 55% stake in Liantianmei Corporate Management, a Medical Aesthetic Services Group, for a consideration of RMB374-691m (depending on financial performance of target company), and we calculate the implied valuation is at ~16.66x-16.75x 2020E P/E, which we think is a fair valuation. This acquisition will empower Aoyuan Healthy Life with two Medical Aesthetics Hospital in Hangzhou, which has 626 staffs including 73 doctors, 94 nurses and 7 pharmacists. Such key personnel are important additions towards the long term growth of the company. Aoyuan Healthy Life will own a 60% stake in the target company after the acquisition.

Dual-Engine Rapid Expansion Underway

2020 has been a major M&A year for Aoyuan Healthy Life. Property Management business has doubled in scale (in terms of GFA under management) through the acquisition of EasyLife, while Healthcare business has added two medical aesthetic hospitals through Liantianmei. We estimate that the successful completion of these two acquisitions alone will add ~RMB45m of attrib. net profit (annualized) to the company. A smooth post-acquisition integration of the management teams will help to improve the cost control and thus result in a margin expansion. Moreover, synergies from the property management business will also help the healthcare business to lower its customer acquisition costs.

Attractive buying opportunity at 11.2x 2021E P/E

We have revised up our 2021E-2022E net profit estimates by 3.8-4.4% to factor in the latest acquisition of Liantianmei. Target Price is unchanged at HK\$11.18/sh, as we believe the acquisition valuation is fair. We believe the stock is currently trading at deeply discounted valuations of 11.2x 2021E P/E due to market's concerns regarding the execution risks in the company's healthcare business. We believe as the company delivers solid progress in the earnings growth through financial results announcements, such concerns will be dispelled and the stock will be re-rated accordingly.

Stock code: 3662.HK

Rating: Buy

Price target (HK\$)	11.18
Current price (HK\$, 18 Sep 2020)	6.56
Upside/downside %	70%
Market cap (HK\$ m)	4,764
Market cap (US\$ m)	615
3M Avg daily turnover (US\$ m)	7.19

Source: Bloomberg, AMTD Research

Key forecasts

(RMB m)	2019	2020e	2021e	2022e
Revenue	901	1,505	2,867	3,435
yoy %	45.6%	67.1%	90.5%	19.8%
Gross Profit	337	452	922	1,094
yoy %	61.5%	34.0%	104.3%	18.6%
Core Net Profit	178	254	383	476
yoy %	108.4%	42.2%	50.8%	24.5%
Gross margin	37.4%	30.0%	32.2%	31.8%
Net gearing	Net cash	Net cash	Net cash	Net cash
EPS	0.26	0.35	0.53	0.66
DPS	0.10	0.14	0.21	0.26
BPS	1.24	1.43	1.70	1.97

Source: Company data, AMTD Research

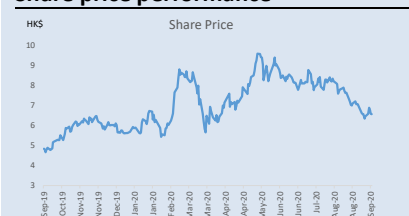
Notes: Core NP excludes listing expenses

Valuation

	2019	2020e	2021e	2022e
P/E	22.6	16.9	11.2	9.0
P/BV	4.8	4.1	3.5	3.0
Div. yield	1.6%	2.4%	3.6%	4.4%
ROE	33.5%	26.9%	33.6%	35.7%
ROA	17.2%	16.9%	20.3%	21.8%

Source: Bloomberg, AMTD Research

Share price performance



Source: Bloomberg

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Financial Summary

Figure 1: Financial Summary and Key Ratios

PnL, RMB mn						Balance Sheet, RMB mn					
	2018	2019	2020e	2021e	2022e		2018	2019	2020e	2021e	2022e
Revenue	618.8	900.8	1,505.0	2,867.4	3,434.8	Property, plant and equipment	12.7	20.2	726.3	726.3	726.3
COGS	(410.1)	(563.7)	(1,053.4)	(1,945.0)	(2,340.8)	Intangible assets	3.0	4.3	3.5	2.8	2.2
Gross Profit	208.8	337.1	451.6	922.4	1,094.0	Goodwill	3.5	3.5	3.5	3.5	3.5
Selling and marketing expenses	(1.3)	(2.5)	(2.5)	(181.0)	(175.0)	Deferred tax assets	7.4	2.6	2.6	2.6	2.6
General and administrative expenses	(89.0)	(126.0)	(105.3)	(200.7)	(240.4)	Deposits paid for acquisition of PPE	1.1	-	-	-	-
Impairment losses on trade receivables	(1.0)	(3.5)	(0.5)	(0.7)	(1.8)	Deferred contract costs	2.3	2.9	2.9	2.9	2.9
IPO expenses	(15.5)	(15.9)	-	-	-	Others	-	318.6	318.6	318.6	318.6
Other income and other gains and losses	6.6	31.8	15.1	19.3	19.3	Non-current assets	30.0	352.2	1,057.3	1,056.7	1,056.1
Interests on bank borrowing	(0.0)	(2.3)	-	-	-	Inventories and other contract costs	0.1	0.7	0.2	0.2	0.2
Profit before tax	108.5	218.6	358.4	559.2	696.0	Trade and other receivables	87.0	106.9	130.9	240.4	213.7
Income tax expense	(30.2)	(55.5)	(100.4)	(156.6)	(194.9)	Deferred contract costs	9.5	5.0	19.2	26.8	28.3
Net profit	78.3	163.1	258.1	402.7	501.1	Amounts due from fellow subsidiaries	175.9	64.4	64.4	64.4	64.4
Shareholders' Profit	78.1	162.5	253.7	382.5	476.1	Amounts due from related parties	0.2	33.8	7.0	34.8	7.6
Minority Interest	0.1	0.6	4.4	20.1	25.1	Bank balances and cash	200.3	822.9	329.5	738.4	835.4
Shareholders' Core Net Profit	93.7	178.4	253.7	382.5	476.1	Current assets	473.1	1,033.6	551.2	1,105.1	1,149.6
Dividends	-	38.5	65.4	101.5	153.0	Contract Liabilities	120.8	93.9	86.7	200.1	109.1
Special Dividends	-	-	-	-	-	Bank and Other Borrowings	1.8	100.3	100.3	100.3	100.3
EPS - basic	0.17	0.24	0.35	0.53	0.66	Trade and Other Payables	226.2	297.6	304.4	555.9	474.6
EPS-underlying	0.20	0.26	0.35	0.53	0.66	Others	27.2	34.2	64.3	52.9	74.0
DPS - basic	-	0.10	0.14	0.21	0.26	Current liabilities	376.0	526.1	555.6	909.1	757.9
BPS	0.27	1.24	1.43	1.70	1.97	Deferred tax liability	0.8	1.1	1.1	1.1	1.1
						Others	-	12.8	12.8	12.8	12.8
						Non-current liabilities	0.8	13.9	13.9	13.9	13.9
						Capital and reserves	125.7	845.1	1,037.8	1,237.5	1,432.6
						Shareholders' equity	125.7	845.1	1,037.8	1,237.5	1,432.6
						Non-controlling interests	0.6	1.2	1.2	1.2	1.2
						Total equity	126.3	846.3	1,039.0	1,238.7	1,433.8
Cash Flow Statement, RMB mn						Key Ratios					
	2018	2019	2020e	2021e	2022e		2018	2019	2020e	2021e	2022e
Profit Before Tax	108.5	218.6	358.4	559.2	696.0	GP Margins	34%	37%	30%	32%	32%
Operating CF before Working Cap	107.5	225.3	363.4	705.5	843.3	Net Margins	13%	18%	17%	13%	14%
PUD	0.0	(0.6)	0.5	(0.0)	-	Core Attr Net Margins	15%	20%	17%	13%	14%
Trade & Other Receivables	2.9	(23.4)	(24.4)	(110.3)	24.9	ROE	66%	33%	27%	34%	36%
Trade & Other Payables	29.2	71.4	6.7	251.5	(81.3)	ROA	15%	17%	17%	20%	22%
Increase in contract liabilities	75.7	(26.8)	(7.3)	113.4	(91.0)	Net Debt / Total Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Deferred Contract Costs	2.7	3.9	(14.2)	(7.7)	(1.5)	Net Debt / Shareholders' Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Others	5.5	35.3	(43.5)	(195.8)	(146.5)	Total Assets / Total Equity	398%	164%	155%	175%	154%
Net Operating Cashflows	223.6	285.1	281.1	756.7	547.9	Total Assets / Shareholders' Equity	400%	164%	155%	175%	154%
Net Investing Cashflows	(249.2)	(342.1)	(709.7)	(144.9)	(144.9)	Asset Turnover	115%	95%	101%	152%	157%
Bank & Other Borrowings	1.8	98.5	-	-	-						
Others	40.5	577.0	(65.4)	(202.9)	(306.0)						
Net Financing Cashflows	42.2	675.5	(65.4)	(202.9)	(306.0)						
Net Cash Flows	16.6	618.5	(494.0)	408.9	97.0						

Source: Company Data, AMTD Research Estimates

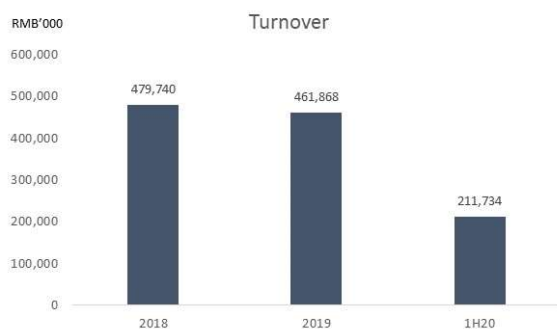
Zhejiang Liantianmei Acquisition

Figure 2: Transaction 20E P/E has been secured at around 16.66x and the consideration shall be capped at RMB691mn

Transaction Details	
Target Company	Zhejiang Liantianmei Corporate Management Company Limited (浙江連天美企業管理有限公司)
Target Interest	55%
Purchaser	Guangdong Xinyuerong Industrial Investment Company Limited (廣東欣容產業投資有限公司), a wholly-owned subsidiary of 3662.HK
Vendor	Guangzhou Shengzhuang Medical Beauty Investment Company Limited (廣州盛妝醫療美容投資有限公司)
Consideration	the first tranche RMB160mn
	the second tranche RMB214.23mn
	the third tranche $A = B \times 16.66 \times 55\% - \text{RMB}374.23\text{mn}$ A= the third tranche consideration B= consolidated 2020 net profit B multiplied by 16.66 shall not exceed RMB1.25bn in any event
	Other Conditions 1) If $A \leq 0$ according to the formula, A is regarded as 0 2) If $A > 0$ and 2020 net profit \geq RMB50mn, the Purchaser shall pay an additional amount of RMB3.5mn to the Vendor on or before 31 March 2021 3) The total Consideration shall be capped at RMB691mn
	Consideration Range RMB374.23mn~RMB691mn
Implied 2020E P/E	If 2020 net profit is RMB75mn, the consideration would be 691mn, implying 2020E P/E 16.75x

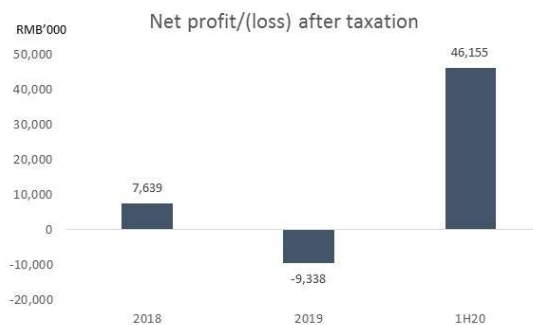
Source: Company Data, AMTD Research

Figure 3: Zhejiang Liantianmei 2018-1H20 Revenue



Source: Company Data, AMTD Research

Figure 4: Zhejiang Liantianmei 2018-1H20 Net Profit



Source: Company Data, AMTD Research

Notes: The target company made compliance adjustment and hospital expansion in previous years, resulting in lower profits in 2018 and 2019

Figure 5: Target Company is a leading integrated medical aesthetic services group

Target Company	
Name	Zhejiang Liantianmei Corporate Management Company Limited (浙江連天美企業管理有限公司)
Position	A leading integrated medical aesthetic services group
Business	Aesthetic surgery services, minimally-invasive aesthetic services and aesthetic dermatology services
Hospitals	Two private medical aesthetic hospitals 1) Hangzhou Huashan Luxeme Medical Cosmetology Hospital (杭州華山連天美醫療美容醫院) 2) Hangzhou Victoria Medical Cosmetology Hospital (杭州維多利亞醫療美容醫院)
Operating Area	~30,000 sq.m.
Registered Patents	24
Customers	> 0.3 million
Pre-deal Relationship with 3662.HK	Aoyuan Healthy Life indirectly holds 5% of equity interest in the Target Company

Source: Company Data, AMTD Research

Valuation

Figure 6: What's Changed?

	New	Old	Change
Target Price(HK\$/sh)	11.18	11.18	0%
2020E Net Profit(RMBm)	254	272	-7%
2021E Net Profit(RMBm)	383	366	4%
2022E Net Profit(RMBm)	476	459	4%
2020E EPS(RMB)	0.35	0.37	-7%
2021E EPS(RMB)	0.53	0.50	4%
2022E EPS(RMB)	0.66	0.63	4%

Source: AMTD Research Estimates

Figure 7: China Property Management Companies: Peers Valuation comparison

Date	18/9/2020	Share Price	Mkt cap	P/E			P/B			Div. yield
Ticker	Name(EN)	(HK\$)	(USD mn)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19
China Property Management										
6098 HK	Country Garden Services	51.70	18,408	74.2x	51.8x	36.7x	23.5x	16.9x	12.4x	0.3%
3319 HK	A-Living Services	40.20	6,916	39.3x	27.8x	21.1x	7.8x	6.5x	5.6x	1.3%
6049 HK	Poly PPT Dev	68.75	4,909	50.8x	47.3x	34.9x	6.5x	5.9x	5.3x	0.5%
2869 HK	Greentown Service	9.39	3,898	49.9x	38.8x	30.1x	8.6x	5.4x	4.8x	0.9%
1995 HK	Eversunshine	16.16	3,483	99.8x	61.1x	39.6x	19.5x	11.7x	9.6x	0.3%
2669 HK	China Overseas PH	6.60	2,799	41.2x	32.8x	25.8x	14.4x	10.9x	8.3x	0.8%
1755 HK	S-Enjoy Services	22.70	2,399	60.1x	38.7x	26.0x	18.1x	13.4x	10.0x	0.9%
9909 HK	Powerlong CM	29.85	2,394	61.0x	56.7x	38.9x	10.2x	9.0x	7.9x	0.0%
9983 HK	CC New Life*	9.10	1,462	NA	22.9x	20.9x	NA	3.8x	3.4x	NA
9928 HK	Times Neighbor	10.34	1,315	56.8x	38.3x	22.3x	9.4x	6.2x	5.2x	0.4%
2606 HK	Languang Justbon	46.10	1,059	13.4x	12.5x	9.4x	3.4x	2.8x	2.3x	3.0%
6958 HK	Zhenro Services	5.54	742	NA	24.3x	17.2x	NA	NA	NA	0.0%
1778 HK	Colour Life	3.93	738	9.7x	9.2x	8.5x	1.3x	1.2x	1.0x	2.6%
3316 HK	Binjiang Services	17.96	641	33.2x	23.4x	19.2x	6.2x	NA	NA	1.4%
3662 HK	Aoyuan Healthy Life*	6.56	615	22.6x	16.9x	11.2x	4.8x	4.1x	3.5x	1.6%
2168 HK	Kaisa Prosperity	26.35	524	20.0x	15.6x	11.3x	5.0x	3.0x	2.6x	2.0%
1971 HK	Redsun Services	5.98	320	NA	28.8x	15.0x	NA	3.5x	3.0x	0.0%
Total/Average			52,621	45.1x	32.2x	22.8x	9.9x	7.0x	5.7x	1.0%

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

Note: As of 18th Sep 2020

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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

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