

Yincheng Life Service Co., Ltd

Strength in Organic Expansion Underpinning Diversified Growth

We maintain our Buy rating on Yincheng Life Service on the back of its 1H21 results announcement, putting it on track to deliver an estimated 30.5% YoY earnings growth for 2021E. It is currently trading at deeply discounted valuations of 9.6x 2021E P/E (Industry average: 18.4x).

Undervalued property manager trading at 9.6x 2021E P/E

We believe Yincheng Life Service is undervalued with its 9.6x 2021E P/E, considering that it is on track to deliver an estimated 30.5% YoY growth in 2021E. With ~84% of its GFA Under Management coming from third-party developers, it is one of the HK-listed property management companies that are least dependent on its parent developer. We believe our Target Price of HK\$7.53/sh, which implies a Target 2021E P/E of 18.1x, better reflects its growth potential.

1H21 results in line, completed 46% of full-year earnings expectations

Yincheng Life Service announced its 1H21 results, which are mostly in line with our expectations. Its revenue grew 41% YoY to RMB588mn, completing 47% of our full-year revenue estimate, while its core net profit grew 36% YoY to RMB40.2mn, representing 46% of our full-year earnings estimate. Its GP margin declined 2.9ppt YoY to 16.6% while core net margin dipped 0.2ppt to 6.8%, though still in line with our estimates. We thus believe that it is on track to achieve a 30.5% core net profit growth for 2021E.

GFA Under Management growth backed by third-party projects

Yincheng Life Service's GFA Under Management increased 45.4% YoY to 49mn sqm, underpinned by a 76% YoY increase in GFA Under Management in the Yangtze River Delta and a 107% increase in the number of projects. Yincheng's independency from its parent developer remains one of the strongest among HK list co's, with ~84% of its GFA Under Management from third-party property developers. In particular, 92% of its newly added GFA Under Management of 9.9mn sqm during 1H21 were from third-party projects.

Residential Customer Base to drive future VAS growth

During 1H21, Yincheng Life Service further expanded into the non-residential property management which offers higher GP margins (16.4% vs 6.7% for residential). Nonetheless, we believe residential properties will remain as the primary focus for the company due to its higher synergies and contribution to the community value-added services segment. The company's focus on predominantly secondary market projects (~80% of GFA Under Management) will help them create a customer base for its high-margin value-added services, such as home decoration, in our view. Community value-added services had a GP margin of 36.2% for 1H21 and we believe this segment's rapid revenue growth of 56% YoY will be extended into the future.

Deeply discounted at 9.6x 2021E P/E, offering 88% upside to our TP

The stock is currently trading at depressed levels of 9.6x 2021E P/E, below the sector average of 18.4x 2021E P/E. Our DCF-based Target Price of HK\$7.53/sh offers 88% upside and implies a Target 2021E P/E of 18.1x, which we believe better reflects the estimated 30.5% core net profit growth.

Key Risks: (1) Growth in GFA Under Management slower than expected; (2) Continued decline in property management margins.

Stock code: 1922.HK

Rating: Buy

Price target (HK\$)	7.53
Current price (HK\$, 20 August 2021)	4.00
Upside/downside %	88%
Market cap (HK\$ m)	1,069
Market cap (US\$ m)	137
Avg daily turnover (US\$ m)	0.07

Source: Bloomberg, AMTD Research

Key forecasts

(RMBm)	2020	2021e	2022e	2023e
Revenue	962	1,256	1,641	2,144
yoy %	38.3%	30.6%	30.6%	30.6%
Gross Profit	162	212	277	362
yoy %	45.1%	30.6%	30.6%	30.6%
Core Net Profit	67	88	115	150
yoy %	103.2%	30.5%	30.6%	30.6%
Gross margin	16.9%	16.9%	16.9%	16.9%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash
EPS	0.25	0.38	0.43	0.56
DPS	0.08	0.16	0.13	0.17
BPS	0.73	0.98	1.30	1.71

Source: Company data, AMTD Research

Valuation

	2020	2021e	2022e	2023e
P/E	14.5	9.6	8.5	6.5
P/BV	5.0	3.7	2.8	2.1
Div. yield	1.9%	3.8%	2.9%	3.8%
ROE	38.8%	37.4%	36.4%	35.7%
ROA	6.9%	7.5%	8.0%	8.5%

Source: Bloomberg, AMTD Research

Share price performance



Source: Bloomberg

Jacky Chan
Analyst

+852 3163 3323

jacky.chan@amtdgroup.com

Eugene Chin
Associate

+852 3163 3374

eugene.chin@amtdgroup.com

Figure 1: Yincheng Life Service 1H21 Results Summary

1HFY21 Results (RMB '000)	1HFY21A	FY21E	% of FY21E	1HFY20A	YoY/Chg
Property Management Services	461,750	1,003,492	46%	336,333	37%
Community Value-Added Services	125,690	252,572	50%	80,537	56%
Others	213	351	61%	-	N/A
Total Revenue	587,653	1,256,415	47%	416,870	41%
Cost of sales	(489,813)	(1,044,337)	47%	(335,417)	46%
Gross profit	97,840	212,078	46%	81,453	20%
Other Income and gains	4,893	19,772	25%	7,081	-31%
Selling and distribution expenses	(2,438)	(6,994)	35%	(2,178)	12%
Administrative expenses	(28,844)	(79,137)	36%	(28,408)	2%
Other expenses	(195)	(355)	55%	(216)	-10%
Fair value gains on investment properties	-	1,290	0%	-	N/A
Impairment losses on financial assets	(7,035)	(4,967)	142%	(8,124)	-13%
Finance cost—net	(5,875)	(13,001)	45%	(4,372)	34%
Share of net (loss)/profit of an associate accounted for	217	374	58%	(1,357)	-116%
Share of profits and losses of joint ventures	186	-	N/A	-	N/A
Profit before income tax	58,749	129,060	46%	43,879	34%
Income tax expenses	(14,720)	(37,427)	39%	(13,958)	5%
Profit/(loss) for the year	44,029	91,632	48%	29,921	47%
Owners of the Company	40,191	87,810	46%	29,536	36%
Non-controlling interests	3,838	3,822	100%	385	897%
Core Attributable Net Profit	40,191	87,810	46%	29,536	36%
Key Ratios					
GP Margin	16.6%	16.9%		19.5%	-2.9ppt
Core Net Margin	6.8%	7.0%		7.1%	-0.2ppt
	1HFY21A	FY21E		1HFY20A	YoY/Chg
Net Debt to Equity	Net Cash	Net Cash		Net Cash	N/A
Total Assets to Total Equity	4.0x	4.5x		4.8x	-0.8x

Source: Company data, AMTD Research Estimates

Figure 2: China Property Management: Peers Valuation Comparison

Date	20/8/2021	Share Price	Mkt cap	P/E			P/B			Div. yield
Ticker	Name(EN)	(HK\$)	(USD mn)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20
China Property Management										
6098 HK	Country Garden Services	53.95	22,347	47.8x	33.0x	22.4x	9.1x	6.7x	5.5x	0.5%
1209.HK	China Res Mixc	38.55	11,293	70.6x	49.5x	35.9x	5.9x	5.4x	5.0x	0.6%
6666 HK	Evergrande Services	6.02	8,353	20.8x	13.0x	8.9x	5.5x	3.9x	2.9x	0.0%
1516.HK	Sunac Services	18.64	7,418	66.3x	37.7x	23.4x	5.0x	4.5x	3.9x	0.4%
3319 HK	A-Living Services	29.25	5,331	19.2x	13.6x	10.2x	4.5x	3.4x	2.7x	2.0%
873 HK	Shimao Services	16.24	4,927	42.4x	24.9x	15.2x	5.0x	4.3x	3.5x	0.0%
9666 HK	Jinke Services	44.45	3,724	31.8x	22.1x	14.6x	0.8x	3.0x	2.6x	1.3%
2869 HK	Greentown Service	7.88	3,281	30.6x	21.9x	16.3x	3.1x	2.9x	2.6x	1.1%
1995 HK	Eversunshine	14.68	3,147	53.8x	32.5x	21.4x	7.1x	6.0x	4.8x	0.6%
6049 HK	Poly PPT Dev	43.30	3,075	31.5x	22.7x	17.4x	3.3x	2.9x	2.6x	1.1%
2669 HK	China Overseas PH	6.41	2,704	29.3x	22.9x	17.6x	9.8x	7.4x	5.6x	1.0%
9909 HK	Powerlong CM	22.35	1,847	40.4x	26.1x	18.8x	5.6x	4.8x	4.1x	1.2%
1755 HK	S-Enjoy Services	15.70	1,757	25.4x	16.2x	11.3x	8.5x	5.1x	3.9x	1.3%
3913 HK	KWG Living	5.82	1,507	27.2x	14.2x	8.8x	3.3x	2.8x	2.2x	1.2%
9983 HK	CC New Life*	5.74	936	12.2x	9.3x	7.3x	2.2x	1.9x	1.6x	3.6%
9979 HK	Greentown Mgmt	3.58	900	12.2x	10.4x	8.4x	1.9x	1.8x	1.7x	5.3%
3316 HK	Binjiang Services	20.10	713	22.5x	14.3x	9.4x	5.6x	4.2x	3.1x	4.4%
6626 HK	Yuexiu Services	3.60	703	NA	11.5x	6.7x	NA	NA	NA	0.0%
6958 HK	Zhenro Services	4.79	638	21.0x	15.0x	10.1x	3.1x	2.6x	2.2x	0.0%
9928 HK	Times Neighbor	4.73	598	16.8x	9.5x	5.4x	2.3x	1.9x	1.1x	1.7%
1778 HK	Colour Life	2.57	491	6.5x	5.8x	5.4x	0.7x	0.6x	0.6x	3.8%
2215 HK	Dexin Services	3.27	427	NA	NA	NA	NA	NA	NA	0.0%
2168 HK	Kaisa Prosperity	21.30	421	12.3x	7.7x	5.1x	2.2x	1.8x	1.5x	3.6%
3662 HK	Aoyuan Healthy Life*	4.20	391	10.2x	7.1x	5.1x	2.5x	2.1x	1.8x	4.0%
1971 HK	Redsun Services	4.57	243	19.9x	10.0x	6.7x	2.3x	2.6x	2.3x	1.3%
1922 HK	Yincheng LS*	4.00	137	14.5x	9.6x	8.5x	5.0x	3.7x	2.8x	1.9%
Total/Average			87,311	28.6x	18.4x	12.8x	4.3x	3.6x	2.9x	1.6%

Source: Bloomberg Estimates, *AMTD Research Estimates

Note: As of 20 Aug 2021

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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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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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