

Aoyuan Healthy Life Group Company Limited

M&A Drives Growth to Beat Expectations, Reiterate Buy

We reiterate our Buy rating on Aoyuan Healthy Life as its 1H21 results beat our expectations. Revenue growth from its value-added services was stronger than expected, reflecting the company's execution capabilities to integrate the newly acquired property management companies into its ecosystem, in our view.

Successful integration of M&A companies into Aoyuan ecosystem

We believe that Aoyuan Healthy Life is beginning to reap the benefits of the series of M&As that it completed in 2020. The company's 1H21 results beat our expectations, with revenue growth from value added services being the key growth driver. We believe this reflects the strong execution capabilities for integrating the newly acquired target companies into its ecosystem of value-added services. With the stock trading at 7.7x 2021E PE, we believe market has overlooked Aoyuan Healthy Life's execution capability, in our view. We reiterate our Buy rating with the Target Price unchanged at HK\$10.75/sh, as we believe our target P/E of 18.5x better reflects the company's growth potential, in our view.

1H21 results slightly ahead of expectations

Aoyuan Healthy Life's 1H21 revenues came in at RMB1,003mn, up 83% YoY, while core net profit grew 70% YoY to RMB178.8mn, bringing it slightly ahead of our expectations as its 1H21 results already represent 50% of our full year estimates. GP margin and core net margins are within our expectations at 34.6% and 17.8% respectively. Its 1H21 results were better than expected primarily due to a 160% increase YoY in community value-added services, contributing RMB150mn in revenue. We believe as Aoyuan Healthy Life further optimizes its service offerings on the back of its recent M&A, community VAS will gradually become the key growth driver for the company.

Industry-high GP margins reflects strong execution capability

Aoyuan Healthy Life completed a few major acquisitions during 2020 to expand its geographical footprint across the country, which helped grow its GFA Under Management by 176% YoY to 44.3mn sqm. The fact that Aoyuan can still achieve a GP margin of 34.6%, after acquiring property management companies which had low profitability pre-acquisition, reflects the value-add of Aoyuan during the M&A process and its execution capabilities. We believe the company will further optimize the operations of its newly acquired units to underpin its above-industry average profitability.

Two new revenue segments to become new growth engines

Aoyuan Healthy Life has introduced General Health and Wellness Services and Intelligent Engineering Services into separate revenue line items in its 1H21 results. These segments grew by 1,740% and 126% YoY respectively during 1H21. We believe they will add synergies to its property management ecosystem to drive future growth, in our view.

Stock trading at attractive valuations of 7.7x 2021E P/E

Aoyuan Healthy Life is currently trading at attractive valuations of 7.7x 2021E P/E versus the industry average of 18.9x. We maintain our DCF-based Target Price of HK\$10.75/sh, which implies a target 2021E P/E of 18.5x.

Key Risks: (1) GFA Under Management growth slower than expected; (2) M&A integration weaker than expected; and (3) Expansion of new segments slower than expected.

Stock code: 3662.HK

Rating: Buy

Price target (HK\$)	10.75
Current price (HK\$, 23 Aug 2021)	4.22
Upside/downside %	155%
Market cap (HK\$ m)	3,065
Market cap (US\$ m)	393
Avg daily turnover (US\$ m)	2.88

Source: Bloomberg, AMTD Research

Key forecasts

(RMB m)	2020	2021e	2022e	2023e
Revenue	1,408	2,123	2,772	3,568
yoy %	56.3%	50.7%	30.6%	28.7%
Gross Profit	481	734	934	1,168
yoy %	42.8%	52.5%	27.2%	25.1%
Core Net Profit	243	358	499	624
yoy %	59.0%	46.9%	39.7%	25.0%
Gross margin	34.2%	34.6%	33.7%	32.7%
Net gearing	Net cash	Net cash	Net cash	Net cash
EPS	0.34	0.49	0.69	0.86
DPS	0.14	0.20	0.28	0.34
BPS	1.43	1.67	2.00	2.35

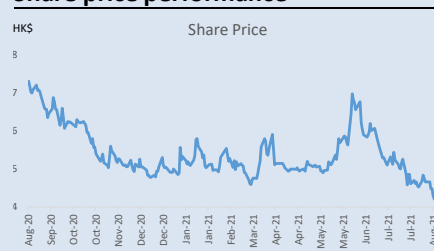
Source: Company data, AMTD Research

Valuation

	2020	2021e	2022e	2022e
P/E	11.0	7.7	5.5	4.4
P/BV	2.7	2.3	1.9	1.6
Div. yield	3.7%	5.2%	7.2%	9.1%
ROE	26.6%	31.8%	37.6%	39.6%
ROA	12.7%	16.6%	20.6%	22.0%

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: Aoyuan Healthy Life 1H21 Results Summary

1HFY21 Results (RMB '000)	1HFY21A	FY21E	% of FY21E	1HFY20A	YoY/Chg
Property management services	800,501	1,573,667	51%	397,049	102%
Property management services fee income	524,335	1,207,049	43%	233,239	125%
Major owners value-added services	126,107	256,367	49%	106,203	19%
Community value-added services and others	150,059	110,251	136%	57,607	160%
Commercial operational services	156,509	548,872	29%	134,666	16%
Commercial operation and management services	123,022	104,000	118%	109,308	13%
Market positioning and business tenant sourcing services	33,487	444,872	8%	25,358	32%
General health and wellness services	10,213	-	N/A	555	1740%
Intelligent engineering services	36,269	-	N/A	16,073	126%
Total Revenue	1,003,492	2,122,539	47%	548,343	83%
Cost of services	(656,136)	(1,388,580)	47%	(327,390)	100%
Gross Profit	347,356	733,959	47%	220,953	57%
Other income	22,150	19,306	115%	7,551	193%
Impairment losses under expected credit loss model, net of reversal	(15,644)	(2,401)	652%	(3,771)	315%
Administrative expenses and other expenses	(92,508)	(225,679)	41%	(59,155)	56%
Selling and distribution expenses	(2,824)	(2,347)	120%	(662)	327%
Listing expenses	-	-	N/A	-	N/A
Finance costs	(16,487)	-	N/A	(5,863)	181%
Gain on deemed disposal of subsidiaries	400	-	N/A	4,496	-91%
Share of results of joint ventures	(1,833)	-	N/A	(3,718)	-51%
Share of results of Associates	98	-	N/A	(659)	-115%
Profit before tax	240,708	522,839	46%	159,172	51%
Income tax expense	(55,138)	(146,395)	38%	(47,549)	16%
Profit for the year	185,570	376,444	49%	111,623	66%
Non-controlling interests	7,726	18,822	41%	579	1234%
Attributable net profit	177,844	357,622	50%	111,044	60%
Core Attrib. Net Profit	178,776	357,622	50%	104,918	70%
Key Ratios					
GP Margin	34.6%	34.6%		40.3%	-5.7ppt
Core Net Margin	17.8%	16.8%		19.1%	-1.3ppt
	1HFY21A	FY21E		1HFY20A	YoY/Chg
Net Debt to Equity	Net cash	Net cash		Net cash	N/A

Source: Company Data, AMTD Research Estimates

Figure 2: China Property Management Companies: Peers Valuation Comparison

Date	23/8/2021	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	57.15	23,672	50.6x	35.0x	23.8x	9.7x	7.1x	5.8x	0.4%
1209.HK	China Res Mixc	39.50	11,571	72.4x	50.7x	36.8x	6.1x	5.5x	5.1x	0.5%
6666 HK	Evergrande Services	5.47	7,590	18.9x	11.8x	8.0x	5.0x	3.6x	2.6x	0.0%
1516.HK	Sunac Services	19.06	7,585	67.8x	38.6x	24.0x	5.1x	4.6x	4.0x	0.3%
3319 HK	A-Living Services	30.00	5,467	19.7x	13.9x	10.5x	4.6x	3.4x	2.8x	2.0%
873 HK	Shimao Services	17.32	5,255	45.3x	26.7x	16.2x	5.3x	4.6x	3.8x	0.0%
9666 HK	Jinke Services	48.60	4,072	34.8x	23.9x	15.9x	0.9x	3.3x	2.9x	1.2%
2869 HK	Greentown Service	7.78	3,240	30.2x	21.7x	16.2x	3.1x	2.9x	2.6x	1.2%
1995 HK	Eversunshine	14.88	3,190	54.5x	32.9x	21.7x	7.2x	6.1x	4.9x	0.6%
6049 HK	Poly PPT Dev	42.80	3,040	31.2x	22.4x	17.2x	3.2x	2.9x	2.6x	1.1%
2669 HK	China Overseas PH	6.50	2,742	29.7x	23.2x	17.9x	9.9x	7.5x	5.7x	1.0%
9909 HK	Powerlong CM	23.45	1,938	42.4x	27.3x	19.7x	5.9x	5.0x	4.3x	1.2%
1755 HK	S-Enjoy Services	17.20	1,925	27.8x	17.9x	12.4x	9.3x	5.4x	4.2x	1.2%
3913 HK	KWG Living	5.95	1,541	27.8x	14.5x	9.0x	3.4x	2.8x	2.3x	1.1%
2606 HK	Languang Justbon	54.15	1,238	16.1x	NA	NA	3.2x	NA	NA	2.0%
9983 HK	CC New Life*	5.77	940	12.2x	9.3x	7.3x	2.2x	1.9x	1.6x	3.5%
9979 HK	Greentown Mgmt	3.65	917	12.5x	10.6x	8.5x	2.0x	1.8x	1.7x	5.2%
3316 HK	Binjiang Services	21.25	754	23.8x	15.1x	9.9x	5.9x	4.4x	3.2x	4.2%
6626 HK	Yuexiu Services	3.60	703	NA	11.5x	6.7x	NA	NA	NA	0.0%
6958 HK	Zhenro Services	4.80	639	21.1x	15.0x	10.1x	3.1x	2.6x	2.2x	0.0%
9928 HK	Times Neighbor	4.81	608	17.1x	9.7x	5.5x	2.3x	1.9x	1.2x	1.7%
1778 HK	Colour Life	2.58	493	6.6x	5.9x	5.4x	0.7x	0.6x	0.6x	3.8%
2215 HK	Dexin Services	3.37	440	NA	NA	NA	NA	NA	NA	0.0%
2168 HK	Kaisa Prosperity	21.70	429	12.5x	7.9x	5.3x	2.2x	1.9x	1.5x	3.6%
3662 HK	Aoyuan Healthy Life*	4.22	393	11.0x	7.7x	5.5x	2.7x	2.3x	1.9x	3.7%
1971 HK	Redsun Services	4.57	243	19.9x	9.9x	6.7x	2.3x	2.6x	2.3x	1.3%
1922 HK	Yincheng LS*	4.01	137	13.3x	8.8x	7.8x	4.6x	3.4x	2.6x	2.4%
Total/Average			90,765	28.8x	18.9x	13.1x	4.4x	3.7x	3.0x	1.6%

Source: Bloomberg Estimates, *AMTD Research Estimates

Note: As of 23 Aug 2021

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

We, Jacky Chan and Eugene Chin, 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 China Aoyuan Group Limited and/or its affiliate(s) within the past 12 months.

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

GENERAL DISCLOSURES

The research report is prepared by AMTD Global Markets Limited ("AMTD") and is distributed to its selected clients.

This research report provides general information only and is not to be construed as an offer to sell or a solicitation of an offer to buy any security in any jurisdiction where such offer or solicitation would be illegal. It does not (i) constitute a personal advice or recommendation, including but not limited to accounting, legal or tax advice, or investment recommendations; or (ii) take into account any specific clients' particular needs, investment objectives and financial situation. AMTD does not act as an adviser and it accepts no fiduciary responsibility or liability for any financial or other consequences. This research report should not be taken in substitution for judgment to be exercised by clients. Clients should consider if any information, advice or recommendation in this research report is suitable for their particular circumstances and seek legal or professional advice, if appropriate.

This research report is based on information from sources that we considered reliable. We do not warrant its completeness or accuracy except with respect to any disclosures relative to AMTD and/or its affiliates. The value or price of investments referred to in this research report and the return from them may fluctuate. Past performance is not reliable indicator to future performance. Future returns are not guaranteed and a loss of original capital may occur.

The facts, estimates, opinions, forecasts and any other information contained in the research report are as of the date hereof and are subject to change without prior notification. AMTD has no obligation to update, modify or amend any part of this research report or to otherwise notify a recipient thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate, or if research on the subject company is withdrawn. AMTD, its group companies, or any of its or their directors or employees ("AMTD Group") do not represent or warrant, expressly or impliedly, that the information contained in the research report is correct, accurate or complete and it should not be relied upon. AMTD Group will accept no responsibilities or liabilities whatsoever for any use of or reliance upon the research report and its contents.

This research report may contain information from third parties, such as credit ratings from credit ratings agencies. The reproduction and redistribution of the third party content in any form by any means is forbidden except with prior written consent from the relevant third party. Third party content providers do not guarantee the timeliness, completeness, accuracy or availability of any information. They are not responsible for any errors or omissions, regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability of fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs) in connection with any use of their content. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities for investment purposes, and should not be relied on as investment advice.

To the extent allowed by relevant and applicable law and/or regulation: (i) AMTD, and/or its directors and employees may deal as principal or agent, or buy or sell, or have long or short positions in, the securities or other instruments based thereon, of issuers or securities mentioned herein; (ii) AMTD may take part or make investment in financing transactions with, or provide other services to or solicit business from issuer(s) of the securities mentioned in the research report; (iii) AMTD may make a market in the securities in respect of the issuer mentioned in the research report; (iv) AMTD may have served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this research report or may be providing, or have provided within the previous 12 months, other investment banking services, or investment services in relation to the investment concerned or a related investment.

AMTD controls information flow and manages conflicts of interest through its compliance policies and procedures (such as, Chinese Wall maintenance and staff dealing monitoring).

The research report is strictly confidential to the recipient. No part of this research report may be reproduced or redistributed in any form by any means to any other person without the prior written consent of AMTD Global Markets Limited.