

# China / Hong Kong Company Update

## A-Living Group Limited

Bloomberg: 3319 HK Equity | Reuters: 3319.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Feb 2022

### BUY

Last Traded Price (10 Feb 2022): HK\$16.96 (HSI : 24,924)  
Price Target 12-mth: HK\$25.91 (53% upside) (Prev HK\$54.73)

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#### What's New

- Plenty of value for investors even if stock is seen as a dividend play after stripping away its property-related non-recurring income
- Cut FY21-23F earnings estimates by 13-32% to factor in potential slowdown from Agile and physical market, along with weaker growth outlook from expected halt in M&A
- Maintain BUY with HK\$25.91 TP

### Trough valuation in sight

#### Investment Thesis

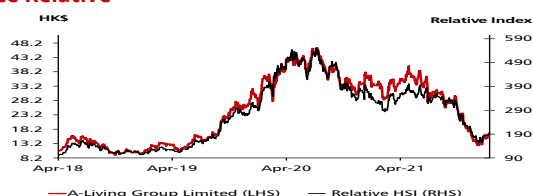
**Deep embedded value.** A-Living is now trading at a level that is attractive even on the perspective of a dividend play. In the theoretical scenario of 1) the company opts to lift its dividend payout to 90% like the rest of HK-listed REITs; and 2) include only the recurring portion of its earnings (i.e. strip out all property agency, non-property owner VAS contributions), A-Living can potentially offer an unlevered 10% FY22F dividend yield. This can place A-Living meaningfully above that of HK-listed REITs' current levered distribution yield of 6.3%, implying deep embedded value for investors.

**Concerns over Agile's liquidity struggle and potential physical market slowdown reflected in the price.** We believe earnings downside from Agile and physical market slowdown have been taken into account in our latest FY21-23F earnings estimates that are 10-26% below current market estimates. On the other hand, while there is a possibility that Agile may opt to dispose more stakes in the future for liquidity, A-Living is already trading at an attractive valuation even as a M&A target (at c.11.5x FY21F PE – having stripped out all contributions from property agency and other non-property owner VAS). We believe the company will soon reach its trough valuation.

#### Valuation:

Our new TP is based on 12.2x FY22F EPS, which is on par to the company's average 1-year forward PE in 2H21.

#### Price Relative



#### Forecasts and Valuation

FY Dec (RMBm)	2020A	2021F	2022F	2023F
Turnover	10,026	13,221	15,700	17,691
EBITDA	2,709	3,217	3,697	4,158
Pre-tax Profit	2,488	3,028	3,515	3,976
Net Profit	1,754	2,208	2,564	2,900
Net Pft (Pre-Ex) (core profit)	1,754	2,208	2,564	2,900
Net Profit Gth (Pre-ex) (%)	42.5	25.9	16.1	13.1
EPS (RMB)	1.32	1.60	1.81	2.04
EPS (HK\$)	1.61	1.96	2.21	2.51
EPS Gth (%)	42.5	21.3	13.1	13.1
Diluted EPS (HK\$)	1.61	1.96	2.21	2.51
DPS (HK\$)	0.64	0.59	0.66	0.75
BV Per Share (HK\$)	6.77	10.31	11.69	13.53
PE (X)	10.5	8.7	7.7	6.8
P/Cash Flow (X)	7.0	6.8	5.6	5.6
P/Free CF (X)	7.2	6.8	5.6	5.6
EV/EBITDA (X)	5.5	3.8	2.8	1.9
Net Div Yield (%)	3.8	3.5	3.9	4.4
P/Book Value (X)	2.5	1.6	1.5	1.3
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	25.9	23.3	20.4	19.9
Earnings Rev (%)		(13)	(26)	(32)
Consensus EPS (RMB)		1.73	2.19	2.77
Other Broker Recs:		B:21	S:3	H:4

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

#### Where we differ:

**Deep embedded value.** A-Living is capable of offering a more attractive recurring dividend yield than a typical HK REITs even if 1) we exclude all non-recurring income – i.e. property agency and non-property owner VAS; and 2) assume zero growth for its recurring business segments.

#### Key Risks to Our View:

**Stake disposal from major shareholder a share price overhang.** With dust yet to settle in the property sector, Agile may opt to further dispose of its stake in the company or to utilize the stake as an underlying asset to facilitate further bond issuances (e.g. in form of another exchangeable bond).

#### At A Glance

Issued Capital (m shrs)	1,333
Mkt Cap (HK\$m/US\$m)	22,608 / 2,902
Major Shareholders (%)	
Agile Group Holdings Ltd	54.3
Free Float (%)	45.7
3m Avg. Daily Val. (US\$m)	13.18
GICS Industry: Industrials / Commercial & Professional Service	



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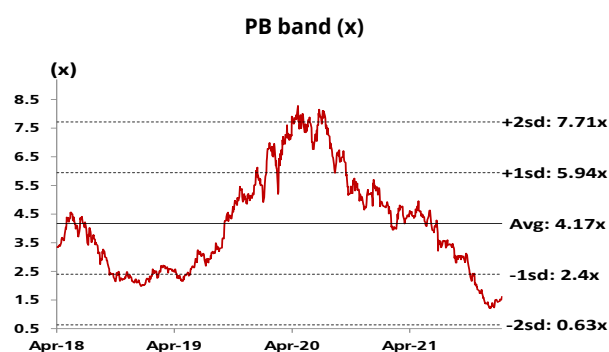
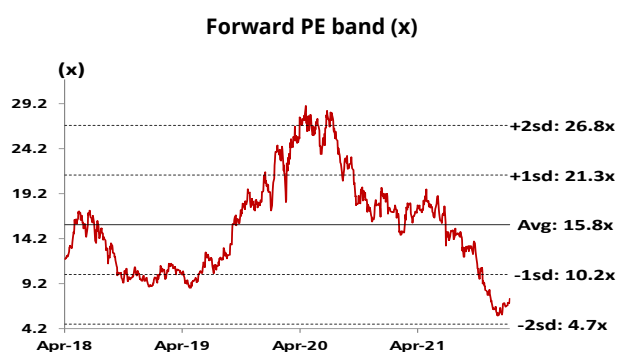


## A-Living Group Limited

### Company Background

A-Living is the property management division of Agile Group (3383 HK) that was spun off for listing on the HKSE in February 2018 at an initial public offering (IPO) price of HK\$14.20. A-Living has almost 25 years of experience in the industry. Through early participation in numerous scalable M&As, A-Living has successfully accumulated a decent operational scale, both in the residential and public facilities at generally fair valuation multiples of 10-12x. The company's contracted and managed GFA stood at c.584m sm and c.425m sm respectively as at Jun-21.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## A-Living Group Limited

### Key Assumptions

FY Dec	2021F	2022F	2023F
Average property management fee growth (%)	0.0	0.0	0.0
Average GFA conversion rate for new projects from 3rd party/Greenland (years)	1.7	1.7	1.7
Average GFA conversion rate for projects from Agile (years)	2.6	2.6	2.6

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Property Management Services	2,830	6,482	8,444	9,910	11,190
Value-added services to non-property owners	1,812	2,491	2,554	2,556	2,586
Value-added services to property owners	485	1,053	1,500	1,898	2,197
City Services	0	0	723	1,336	1,719
<b>Total</b>	<b>5,127</b>	<b>10,026</b>	<b>13,221</b>	<b>15,700</b>	<b>17,691</b>
<b>Gross Profit (RMB m)</b>					
Property Management Services	715	1,414	1,835	2,134	2,410
Value-added services to non-property owners	903	999	958	895	905
Value-added services to property owners	264	560	780	968	1,120
City Services	0	0	159	294	378
<b>Total</b>	<b>1,883</b>	<b>2,973</b>	<b>3,732</b>	<b>4,291</b>	<b>4,813</b>
<b>Gross Profit Margins (%)</b>					
Property Management Services	25.3	21.8	21.7	21.5	21.5
Value-added services to non-property owners	49.8	40.1	37.5	35.0	35.0
Value-added services to property owners	54.4	53.2	52.0	51.0	51.0
City Services	N/A	N/A	22.0	22.0	22.0
<b>Total</b>	<b>36.7</b>	<b>29.7</b>	<b>28.2</b>	<b>27.3</b>	<b>27.2</b>

Source: Company, DBS HK

## A-Living Group Limited

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Revenue	5,127	10,026	13,221	15,700	17,691
Cost of Goods Sold	(3,244)	(7,053)	(9,489)	(11,409)	(12,878)
<b>Gross Profit</b>	<b>1,883</b>	<b>2,973</b>	<b>3,732</b>	<b>4,291</b>	<b>4,813</b>
Other Opg (Exp)/Inc	(195)	(507)	(772)	(861)	(936)
<b>Operating Profit</b>	<b>1,688</b>	<b>2,466</b>	<b>2,961</b>	<b>3,429</b>	<b>3,877</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	23	62	75	86	99
Net Interest (Exp)/Inc	(16)	(40)	(7)	0	0
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>1,694</b>	<b>2,488</b>	<b>3,028</b>	<b>3,515</b>	<b>3,976</b>
Tax	(403)	(515)	(545)	(633)	(716)
Minority Interest	(61)	(218)	(275)	(319)	(361)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>1,231</b>	<b>1,754</b>	<b>2,208</b>	<b>2,564</b>	<b>2,900</b>
Net Profit before Except.	1,231	1,754	2,208	2,564	2,900
EBITDA	1,800	2,709	3,217	3,697	4,158
<b>Growth</b>					
Revenue Gth (%)	51.8	95.5	31.9	18.7	12.7
EBITDA Gth (%)	62.2	50.5	18.7	14.9	12.5
Opg Profit Gth (%)	56.9	46.1	20.1	15.8	13.1
Net Profit Gth (%)	53.6	42.5	25.9	16.1	13.1
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	36.7	29.7	28.2	27.3	27.2
Opg Profit Margin (%)	31.2	22.8	21.0	20.7	20.9
Net Profit Margin (%)	24.0	17.5	16.7	16.3	16.4
ROAE (%)	21.2	25.9	23.3	20.4	19.9
ROA (%)	14.8	15.0	13.2	12.1	11.9
ROCE (%)	21.0	24.4	21.1	19.0	18.6
Div Payout Ratio (%)	48.8	39.5	30.0	30.0	30.0
Net Interest Cover (x)	103.3	61.1	402.1	NM	NM

Source: Company, DBS HK

## A-Living Group Limited

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Net Fixed Assets	159	255	212	168	125
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	2,405	4,620	5,791	5,653	5,516
Cash & ST Invt	4,213	5,085	8,445	11,283	14,048
Inventory	12	19	132	157	177
Debtors	2,158	3,406	4,407	4,906	5,528
Other Current Assets	440	591	591	591	591
<b>Total Assets</b>	<b>9,388</b>	<b>13,975</b>	<b>19,579</b>	<b>22,759</b>	<b>25,985</b>
ST Debt	16	225	0	0	0
Creditors	1,738	3,371	4,654	5,614	6,348
Other Current Liab	936	1,270	1,270	1,270	1,270
LT Debt	5	9	9	9	9
Other LT Liabilities	186	443	443	443	443
Shareholder's Equity	6,191	7,355	11,625	13,526	15,657
Minority Interests	315	1,303	1,577	1,896	2,257
<b>Total Cap. &amp; Liab.</b>	<b>9,388</b>	<b>13,975</b>	<b>19,579</b>	<b>22,759</b>	<b>25,985</b>
Non-Cash Wkg. Capital	(63)	(625)	(793)	(1,229)	(1,321)
Net Cash/(Debt)	4,191	4,851	8,436	11,274	14,039
Debtors Turn (avg days)	118.3	101.3	107.8	108.3	107.6
Creditors Turn (avg days)	168.2	135.7	157.3	166.9	171.9
Inventory Turn (avg days)	1.6	0.8	3.0	4.7	4.8
Asset Turnover (x)	0.6	0.9	0.8	0.7	0.7
Current Ratio (x)	2.5	1.9	2.3	2.5	2.7
Quick Ratio (x)	2.4	1.7	2.2	2.4	2.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	73.0	26.1	0.0	0.0	0.0
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Pre-Tax Profit	1,694	2,488	3,028	3,515	3,976
Dep. & Amort.	90	181	181	181	181
Tax Paid	(315)	(490)	(545)	(633)	(716)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	5	0	0	0
Chg in Wkg.Cap.	138	404	168	436	92
Other Operating CF	(6)	32	0	0	0
<b>Net Operating CF</b>	<b>1,600</b>	<b>2,620</b>	<b>2,832</b>	<b>3,500</b>	<b>3,534</b>
Capital Exp.(net)	(16)	(61)	0	0	0
Other Invt.(net)	(1,361)	(985)	(1,310)	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(399)	152	0	0	0
<b>Net Investing CF</b>	<b>(1,775)</b>	<b>(894)</b>	<b>(1,310)</b>	<b>0</b>	<b>0</b>
Div Paid	0	0	0	0	0
Chg in Gross Debt	(27)	(131)	(225)	0	0
Capital Issues	0	0	2,756	0	0
Other Financing CF	(399)	(745)	(693)	(662)	(769)
<b>Net Financing CF</b>	<b>(426)</b>	<b>(877)</b>	<b>1,838</b>	<b>(662)</b>	<b>(769)</b>
Currency Adjustments	0	0	0	0	0
Chg in Cash	(601)	850	3,361	2,838	2,765
Opg CFPS (RMB)	1.10	1.66	1.93	2.16	2.42
Free CFPS (RMB)	1.19	1.92	2.05	2.46	2.49

Source: Company, DBS HK

**A-Living Group Limited**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	24-Mar-21	HK\$33.05	HK\$54.66	Buy
2:	18-Aug-21	HK\$31.45	HK\$54.73	Buy

Source: DBS HK

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## A-Living Group Limited

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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## A-Living Group Limited

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