

Hong Kong

ADD

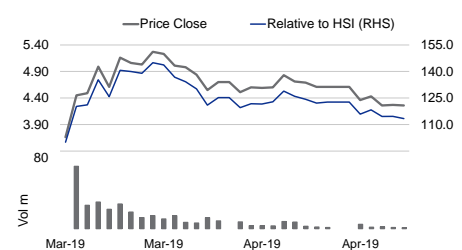
Consensus ratings*: Buy 0 Hold 0 Sell 0

Current price:	HK\$4.26
Target price:	HK\$6.00
Previous target:	N/A
Up/downside:	40.8%
CIMB / Consensus:	na
Reuters:	3662.HK
Bloomberg:	3662 HK
Market cap:	US\$394.4m HK\$3,094m
Average daily turnover:	US\$6.44m HK\$50.51m
Current shares o/s:	7.26m
Free float:	25.0%

*Source: Bloomberg

Key changes in this note

➤ N/A



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-15		
Relative (%)	-17.9		

Major shareholders	% held
China Aoyuan	54.6

Analyst(s)

Raymond CHENG, CFA

T (852) 2539 1324

E raymond.cheng@cgs-cimb.com

Jeffrey MAK

T (852) 2539 1328

E jeffrey.mak@cgs-cimb.com

Will CHU

T (852) 2539 1327

E will.chu@cgs-cimb.com

Aoyuan Healthy Life

A rising property management star

- Aoyuan Healthy Life is an up-and-coming property management expert in China, with solid execution capabilities and strong support from its parent.
- Its property management GFA has doubled since 2015 to 10.4m sq m at end-2018. We expect its portfolio to expand more than 3x to 35m sq m by 2021F.
- Initiate coverage with Add call and TP of HK\$6.00 offering 41% potential upside. It trades at attractive valuation of 13x FY20F P/E and 3.2% yield.

Highly-fragmented industry seeing rapid consolidation

The property management industry in China is highly fragmented but undergoing consolidation. Industry consultant Savills forecasts that the combined market share (GFA under management) of the top 100 property management companies increased from 13.5% in 2012 to 32.4% in 2017 (19% CAGR) and will rise further to 56.2% in 2025F. We believe that strong support from its parent company and solid execution capabilities are key to any property management company looking to ride on this positive trend.

An up-and-coming property management expert

We believe that the company could be a key winner from the property management market consolidation trend ahead, given its strong parental support and proven track record over the past few years. It has doubled its property management GFA since 2015 to 10.4m sq m at end-2018. Moreover, its rapid expansion in the commercial operational services segment could boost revenue growth for the company, in our view.

Parent's rapid sales growth provides high GFA growth visibility

Aoyuan Healthy Life is currently 55%-owned by China Aoyuan, a leading property developer in China with a land bank of 34m sq m land bank and ranked No.32 in China by sales value in 2018, according to CRIC. Given their close relationship, we believe the company will continue to manage most of the projects developed by China Aoyuan, which recorded a 67% CAGR in contracted GFA over FY16-18 (we project this to increase by 30-40% p.a. over FY19-20F). The rapid GFA growth of its parent company provides high earnings growth visibility for Aoyuan Healthy Life.

We estimate core net profit CAGR of 46% over FY18-21F

We project its revenue-generating property management GFA to increase to 35.0m sq m by 2021F from 10.4m sq m in 2018. This, coupled with a strong pipeline of contracted shopping malls to be opened in the coming years, leads us to estimate revenue growth of 39% p.a. in FY19-21F. We project its FY19/20/21F core net profit to increase by 43%/56%/40% yoy to Rmb135m/Rmb211m/Rmb295m (CAGR of 46% over FY18-21F).

Initiate with an Add rating and TP of HK\$6.00

We initiate coverage on Aoyuan Healthy Life with an Add rating and TP of HK\$6.00, based on 18x FY20F P/E (the average of its closest HK-listed peers). Potential key catalysts include stronger-than-expected contracted sales of parent company China Aoyuan and potential M&As. Key risks are profit margin compression amid rising labour costs and slowdown in China's economy.

Financial Summary

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues (Rmbm)	436	619	820	1,201	1,648
Operating EBITDA (Rmbm)	106.2	118.4	177.4	277.1	388.0
Net Profit (Rmbm)	72.8	94.0	134.7	210.8	294.5
Core EPS (Rmb)	0.10	0.13	0.19	0.29	0.41
Core EPS Growth	82.5%	29.1%	43.3%	56.5%	39.7%
FD Core P/E (x)	36.46	28.25	19.72	12.60	9.02
DPS (Rmb)	0.00	0.06	0.07	0.12	0.16
Dividend Yield	0.00%	1.50%	2.03%	3.17%	4.43%
EV/EBITDA (x)	23.45	20.76	8.70	4.60	2.55
P/FCFE (x)	61.26	30.63	45.76	12.72	12.16
Net Gearing	(148%)	(157%)	(124%)	(131%)	(132%)
P/BV (x)	24.04	21.13	2.96	2.52	2.10
ROE	76.3%	79.6%	26.4%	21.6%	25.4%
% Change In Core EPS Estimates					
CIMB/consensus EPS (x)					

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Peers comparison

Company Name	Ticker	Share price (HK\$)	Target price (HK\$)	Rating	Mkt cap (US\$ m)	P/E (x)				P/BV(x)		Yield (%)			Net Gearing (%) 2018	
						2017	2018	2019F	2020F	2017	2018	2017	2018	2019F		2020F
Aoyuan Healthy Life	3662 HK	4.26	6.00	ADD	385	37.9	28.2	19.7	12.6	13.1	15.2	NA	1.5	2.0	3.2	(157.2)
Greentown Service Group	2869 HK	6.73	NA	NOT RATED	2,383	41.3	34.0	25.7	19.9	8.4	6.9	1.2	1.0	1.3	1.8	(90.6)
China Overseas Property Holdings	2669 HK	3.75	NA	NOT RATED	1,550	40.2	30.7	24.2	19.7	14.4	11.0	1.4	1.0	1.3	1.6	(212.4)
Country Garden Services	6098 HK	14.10	NA	NOT RATED	4,872	68.7	33.1	26.5	20.9	21.3	13.4	NA	0.7	0.9	1.2	(166.1)
Xinchengyue Holdings	1755 HK	7.02	NA	NOT RATED	728	NA	25.1	22.3	12.8	NA	5.9	NA	1.3	2.6	3.4	(300.2)
Comparable peer average						50.1	30.7	24.7	18.3	14.7	9.3	1.3	1.0	1.6	2.0	(192.3)
Colour Life Services Group	1778 HK	5.88	NA	NOT RATED	976	15.7	13.3	10.7	8.8	1.5	2.1	2.2	3.2	3.7	4.8	30.9
A-Living Services	3319 HK	12.74	NA	NOT RATED	2,155	43.2	17.6	14.1	10.8	8.3	0.9	NA	1.3	2.6	3.4	(87.3)
Overall average						41.8	25.7	20.6	15.5	10.8	6.7	1.6	1.4	2.1	2.7	(137.6)

SOURCE: CGS-CIMB RESEARCH, BLOOMBERG (AS AT 29 APR 2019)

A rising property management star

Initiate coverage with an Add rating

Investment thesis ►

We believe Aoyuan Healthy Life could be a key winner from the property management market consolidation trend, given its strong parental support and proven track record over the past few years. The company has doubled its property management GFA since 2015 to 10.4m sq m at end-2018.

It is currently 55%-owned by China Aoyuan (3883 HK, Add, TP: HK\$12.00). More than 90% of Aoyuan Healthy Life's property management GFA comprises China Aoyuan projects. Given the close relationship with its parent company, we believe that Aoyuan Healthy Life will continue to manage most of China Aoyuan projects when completed, going forward. Ranked No.32 in China by sales by value in 2018, China Aoyuan had total land bank GFA of 34m sq m as at end-2018, equivalent to 3.3x of Aoyuan Healthy Life's property management GFA.

China Aoyuan registered an 82% contracted sales CAGR and a 67% contracted GFA CAGR over 2016-18. We believe this would translate into high property management GFA growth in FY19-20F when these projects are delivered. Meanwhile, given China Aoyuan's ample saleable resources and proven track record, we expect fast sales growth (30-40% p.a.) to be maintained in FY19-20F, providing high GFA growth visibility for Aoyuan Healthy Life in the coming years.

We project a 46% core net profit CAGR over FY18-21F for Aoyuan Healthy Life, to be driven by a sharp rise in GFA under management and a strong pipeline of contracted shopping malls to be opened in the coming years. We initiate coverage with an Add rating and a target price of HK\$6.00, based on 18x FY20F P/E, on par with the average multiple of its closest peers – Greentown Service Group (2869 HK, Not Rated), China Overseas Property Holdings (2669 HK, Not Rated), Country Garden Services Holdings (6098 HK, Not Rated), and Xinchengyue Holdings (1755 HK, Not Rated). Key risks to our Add recommendation include profit margin compression amid rising labour costs, regulatory risk in the form of management fee regulation and slowdown in China's economy.

Our P/E-based target price suggests 41% potential upside ►

Among the valuation methodologies commonly used by the investment community, we believe P/E is the most relevant and appropriate approach to value the property management business.

There are six major HK-listed property management companies, namely Greentown Service Group (2869 HK, Not Rated), Colour Life Services (1778 HK, Not Rated), China Overseas Property Holdings (2669 HK, Not Rated), Country Garden Services (6098 HK, Not Rated), A-Living (3319 HK, Not Rated) and Xinchengyue Holdings (1755 HK, Not Rated). We exclude Colour Life and A-Living as peers because their business models differ from Aoyuan Healthy Life's.

Figure 2: Comparison of key metrics and valuation

Company	Stock code	Mkt cap (US\$m)	FY18 Revenue	% of revenue from prop mgt*	FY18		FY18 net profit	FY18 net margin	FY18 Total assets	GFA under mgt (m sqm)	2018F P/E (x)	2019F P/E (x)	2020F P/E (x)
					Gross Profit	Gross margin							
Greentown Service Group	2869 HK	2,383	6,710	67%	1,198	17.8%	483	7%	5,344	170.4	34	26	20
China Overseas Property Holdings	2669 HK	1,550	4,155	90%	849	20.4%	402	10%	3,557	140.9	31	24	20
Country Garden Services Holdings	6098 HK	4,872	4,675	74%	1,762	37.7%	923	20%	3,477	181.5	33	26	21
Xinchengyue Holdings	1755 HK	728	1,150	64%	339	29.5%	150	13%	814	42.9	25	22	13
Aoyuan Healthy Life Group Ltd	3662 HK	385	619	73%	209	33.7%	94	15%	503	10.4	28	20	13
Average											31	25	18
Colour Life Services Group	1778 HK	976	3,614	85%	1,282	35.5%	485	13%	10,066	363.2	13	11	9
A-Living Services Co Ltd	3319 HK	2,155	3,377	48%	1,290	38.2%	801	24%	7,297	138.1	18	14	11

Note: Revenue, profit and asset figures in Rmb m for all companies except China Overseas Property (in HK\$ m)
 SOURCE: CGS-CIMB RESEARCH, BLOOMBERG (AS AT 29 APR 2019)

The remaining four companies that we have identified as Aoyuan Healthy Life's closest peers trade at an average FY20F P/E of 18x. Based on this multiple and our FY20F core EPS estimate of Rmb0.29 (or HK\$0.33), we arrive at our target price of HK\$6.00.

Company background

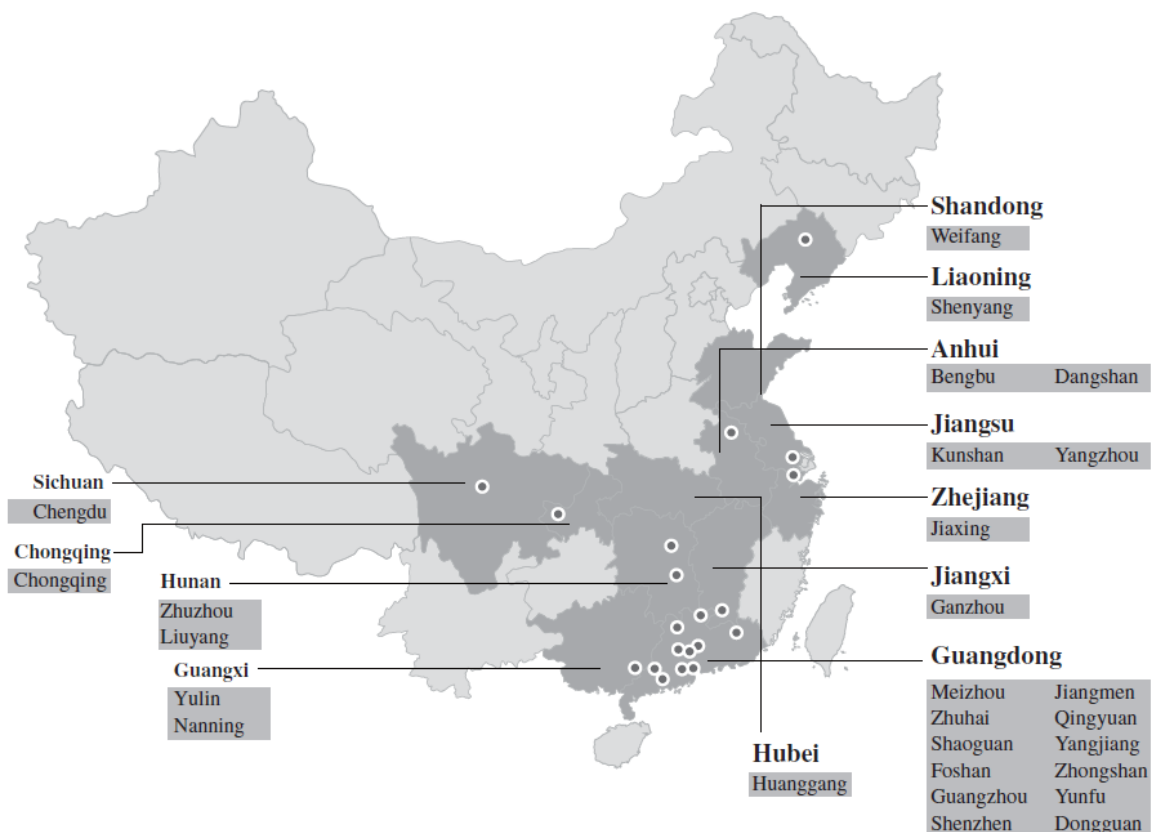
A renowned property management service and commercial operational service provider >

Aoyuan Healthy Life is a renowned property management service and commercial operational service provider in China, with a focus on mid- to high-priced properties and mixed-use property developments.

The company is one of the few service providers in China that possess strong capabilities in providing both property management services and commercial operational services. In 2018, Aoyuan Healthy Life was ranked 16th of the Top 100 Property Management Companies in China in terms of overall strength by the China Index Academy (CIA) and the China Real Estate Top 10 Research Team and 14th among the commercial operational service providers in China in terms of total contracted GFA by Savills.

As at 31 Dec 2018, Aoyuan Healthy Life provided property management services to 61 real estate projects in 25 cities across 11 provinces in China (property management GFA of approximately 10.4m sq m). Meanwhile, it provided commercial operational services to nine shopping malls in operation (commercial operational GFA under management of 424,000 sq m) and is contracted to provide commercial operational services to 25 shopping malls (GFA of 1.3m sq m, most of which are slated to be opened by 2021F).

Figure 3: Geographical presence of Aoyuan Healthy Life's property management services in China (as at 31 Dec 2018)



SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

An asset-light business model >

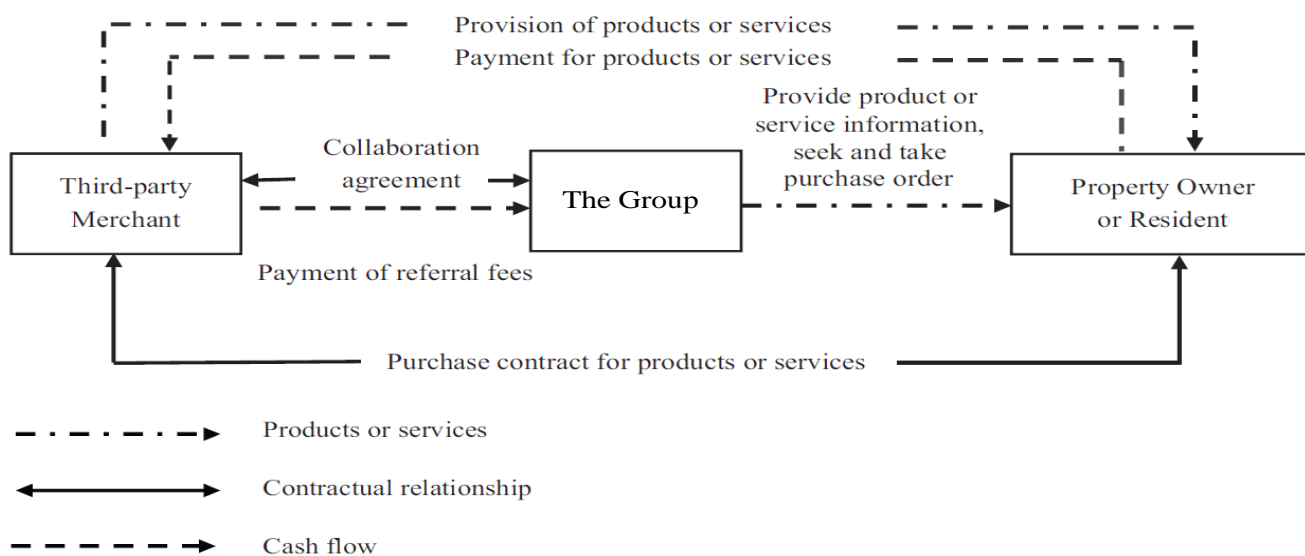
Property management services

Business nature

Aoyuan Healthy Life provides: i) sales assistance services to property developers during presale activities such as cleaning, security and maintenance of presale display units and sales offices; ii) a range of property management services to property developers, property owners and property owner

associations, such as security, cleaning, gardening and repair & maintenance services at the pre-delivery and post-delivery stages; and iii) community value-added services to property owners or residents of its managed properties, such as common area and advertisement space-leasing services and home living assistance services. Its management portfolio covers both residential properties and non-residential properties such as serviced apartments, office buildings and kindergartens.

Figure 4: Business development process for property management



SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

Pricing model

The revenue the company generated from property management services was mainly charged on lump-sum basis (over 99% of its property management revenue in 2015-17), whereby all contracted fees are recognised as revenue and expenses are borne by the company and its subsidiaries. This is in contrast to commission basis, whereby it recognises a predetermined percentage of fees as revenue. According to Savills, lump sum is the dominant method of collecting property management fees in China.

Figure 5: Comparison between lump-sum basis and commission basis pricing models

	Lump-sum basis	Commission basis
Predominantly adopted by:	Greentown Service (2869 HK), COPH (2669 HK), CG Services (6098 HK), A-Living (3319 HK), Xinchengyue Holdings (1755 HK), Aoyuan Healthy Life	Colour Life Services (1778 HK)
Revenue	Company recognises the full amount of property management fees paid by property developers, property owners and residents as revenue	Company recognises a pre-determined percentage (normally around 10-12%) of property management fees paid by property developers, property owners and residents as revenue
Costs incurred	Company bears the costs incurred in providing property management services	The remainder of property management fees is used as working capital to cover the costs incurred in providing property management services and the company generally does not bear the costs in providing property management services
Shortfall or surplus between management fees and costs incurred	If the amount of property management fees received is not sufficient to cover all costs incurred, company is not entitled to request the property owners to pay the shortfall	Company is not responsible for any shortfall if the amount of property management fees received is not sufficient to cover all the costs incurred. Any shortfall or surplus is assumed by property developers, property owners and residents
Advantages	(1) better profitability if cost control is better; (2) less complicated legal procedures; (3) simpler financial reporting	(1) guaranteed profitability (at gross profit level) as it is determined in the contract; (2) more involvement by the property owners which may lead to better services and satisfaction
Disadvantages	(1) all risks are borne by the property manager	(1): distorted the financial statements ; (2) risk of bad debt / collection if expenses are out of control; (3) more complicated legal procedures

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

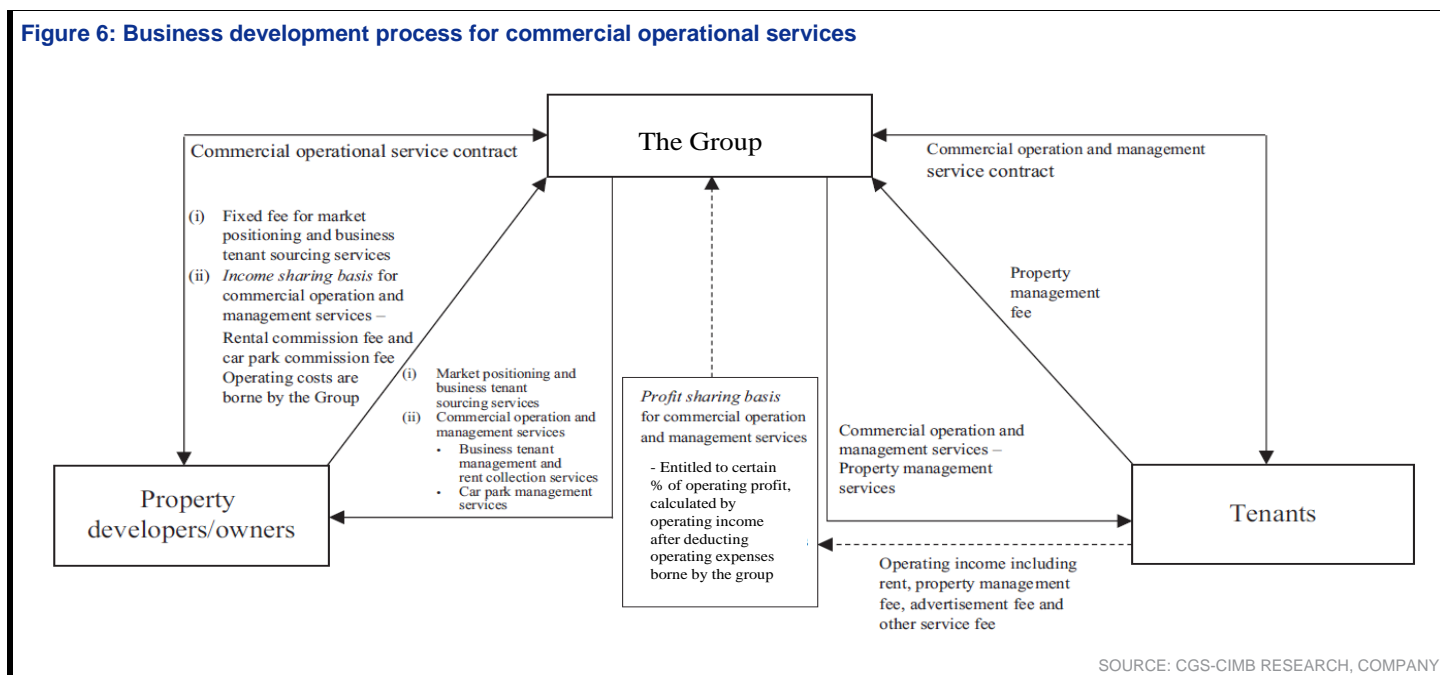
Commercial operational services – value added

Business nature

The company provides:

- i) market positioning and business tenant sourcing services to property developers or owners, primarily consisting of: a) market research and positioning services, including conducting market research and analysis and providing advice on the design and construction plan of the shopping malls; and b) business tenant sourcing services that involve conducting the tenant-sourcing process, including soliciting tenants and arranging the signing of the tenancy agreements; and
- ii) commercial operation and management services, primarily comprising: a) property management services to property owners or tenants, including security, cleaning, repair and maintenance services; b) business tenant management and rent collection services to property developers or owners, which involve providing support and guidance to business tenants on their operations, handling tenants' enquiries and complaints, processing rent payment and ensuring timely payment of rent by tenants; and c) other value-added services to property developers or owners, including car park management.

Figure 6: Business development process for commercial operational services



Revenue model

The company charges its commercial operation and management services on an income-sharing basis or profit-sharing basis. For income-sharing basis, Aoyuan Healthy Life determines its charges based on: i) the rental fees payable by tenants with reference to market research reports, the business plan and positioning of the shopping malls; and ii) the property management fees payable by tenants with reference to its budget, estimated costs and target profit margins. For profit-sharing basis, the company charges a service fee ranging from 15% to 20% of operating profit for the year.

Strong support from parent company China Aoyuan ➤

Aoyuan Healthy Life has long-term and substantial business cooperation with its parent company, China Aoyuan, which owns a 55% stake in the company and is a leading property developer in China with total land bank of 34m sq m as at end-2018 (equivalent to 3.3x of Aoyuan Healthy Life's property management

GFA at end 2018). Figure 7 below shows that Aoyuan Healthy Life's property management GFA doubled to 10.4m sq m in 2018 from 5.2m sq m in 2015 and more than 90% of its GFA came from China Aoyuan, illustrating the strong support of its parent company.

Aoyuan Healthy Life provides property management services for a substantial portion of the residential projects developed by its parent group (approximately 95-100% in 2015-18), as well as commercial operational services for all commercial property projects developed by the parent group under the "Aoyuan Plaza" and "Aoyuan City Plaza" brands. Given its stable relationship with the parent group, we think the company is well positioned to continue benefiting from the extensive project reserves of the parent group, which facilitates the robust GFA growth of its property management service and commercial operational service businesses.

Figure 7: Aoyuan Healthy Life's property management services segment revenue breakdown

(GFA: m sqm/Revenue: Rmb m)	2015			2016			2017			2018		
	GFA	Revenue	Revenue %	GFA	Revenue	Revenue %	GFA	Revenue	Revenue %	GFA	Revenue	Revenue %
Parent group and its related parties	5.2	114.7	99.9%	7.0	171.2	98.9%	8.2	228.2	97.1%	9.9	289.7	94.7%
Third party developers	0.0	0.1	0.1%	0.1	1.9	1.1%	0.4	6.9	2.9%	0.6	16.3	5.3%
	5.2	114.8	100.0%	7.1	173.0	100.0%	8.6	235.1	100.0%	10.4	306.0	100.0%

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

China Aoyuan recorded rapid growth in contracted sales over the past few years, rising from Rmb15bn in 2015 to Rmb91bn in 2018, representing a 3-year CAGR of 82%. Contracted GFA rose from 1.9m sq m to 8.9m sq m over the same period, representing a 3-year CAGR of 67%.

Figure 8: China Aoyuan's contracted sales (Rmb m) saw rapid growth over 2015-18

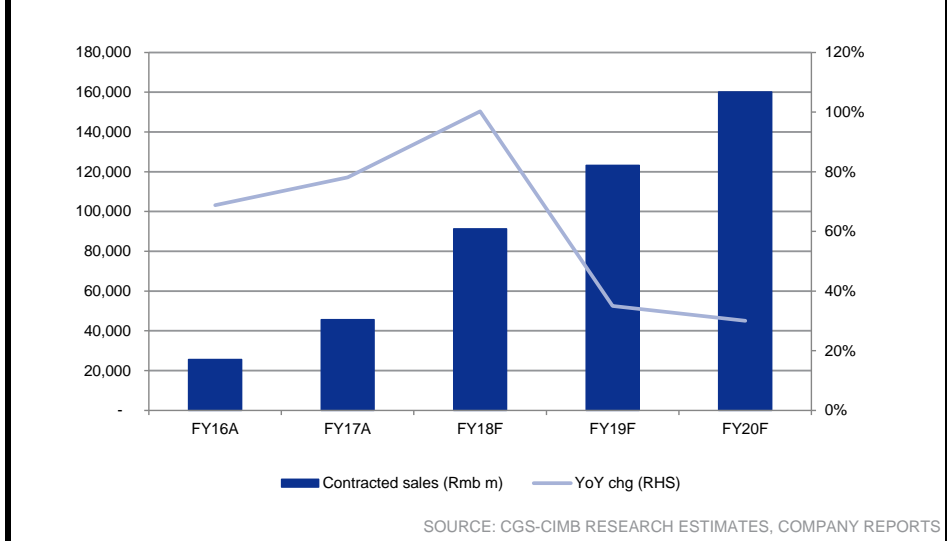
	Contracted sales	yoy %	Contracted GFA	yoy %
2015	15,170	24%	1,887,000	40%
2016	25,600	69%	2,979,000	58%
2017	45,586	78%	4,487,800	51%
2018	91,280	100%	8,863,000	97%

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

Given the presales mechanism in China, primary projects are usually delivered 1-2 years after they are sold. This suggests that the strong growth in China Aoyuan's contracted GFA in FY17-18 would translate to a sharp rise in Aoyuan Healthy Life's property management GFA in FY19-20F, as those projects are delivered by the parent company and passed on to the company to manage.

In addition, we expect China Aoyuan to sustain strong sales growth of 30-40% p.a. in FY19-20F, supported by ample saleable resources of Rmb365bn as at end-2018. This suggests strong visibility for Aoyuan Healthy Life's GFA under management over the next five years. (Please refer to Financials and earnings outlook section on page 11 for detailed analysis.)

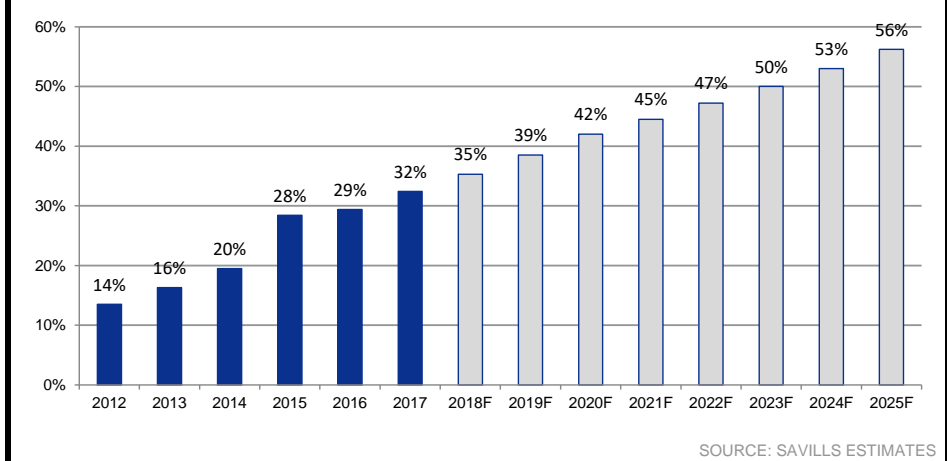
Figure 9: China Aoyuan's contracted sales sees rapid growth



Industry to experience rapid consolidation ➤

The property management industry has become more concentrated over the past few years, with large-scale property management companies accelerating their expansion through both organic growth and M&A in order to gain market share. The market share of the top 100 property management companies in China (in terms of GFA under management) increased from 13.5% in 2012 to 32.4% in 2017 (19% CAGR) and is projected to rise to 56.2% in 2025F, according to Savills.

Figure 10: Market concentration of Top 100 property management companies in China (in terms of GFA under management)



Opportunities: Expanding into diversified services ➤

In view of the growing ageing population, rising awareness and favourable government policies towards traditional Chinese medicine, increasing disposable income per capita, continued population growth and increasing acceptance of beauty services, Aoyuan Healthy Life is looking to expand into the Chinese medicine and beauty industries.

The company has set up two traditional Chinese medicine centres (opened in Dec 2018). It also plans to open a medical beauty clinic (scheduled to open in 1H19F).

Figure 11: Details of Aoyuan Healthy Life's new Chinese medicine centres and medical beauty clinic

Centre	Location	Estimated area (sqm)	Opening date	Type of service	Est. total investment (Rmb m)	Est. breakeven period (months)	Est. investment payback period (months)
A traditional Chinese medicine centre	Guangzhou	2,000	Dec-18	Traditional Chinese medicine consultation, complex diseases diagnosis, elderly care services	5.3	7	28
A traditional Chinese medicine centre	Guangzhou	260	Dec-18	Traditional Chinese medicine consultation, complex diseases diagnosis, elderly care services	1	10	30
A medical beauty clinic	Guangzhou	2,000	1H19F	Skin treatments, microcosmetics, plastic surgeries	9.1	7	33

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

In Aug 2018, the company entered into a non-legally-binding strategic cooperation agreement with Genius (吉紐思株式會社, Unlisted), a Korean medical aesthetic service provider, which will provide the company with a full set of beauty service skills and techniques, and advice on the operation and management of medical beauty clinics. Genius will also send qualified professionals from Korea, including doctors, skin management specialists and beauty consultants, to the company's clinics to provide on-site training.

Financials and earnings outlook

Exponential growth in property management GFA ahead; with strong visibility ►

As at end-2018, Aoyuan Healthy Life's property management division had approximately 10.4m sq m GFA under management, most of which (>95% of property management GFA in 2015-17) comes from its parent, China Aoyuan. China Aoyuan is a leading property developer in China, with contracted sales and GFA recording CAGR of 82% and 67%, respectively, over 2016-18.

Figure 12: China Aoyuan's contracted sales saw rapid growth over 2015-18

	Contracted sales	yoy %	Contracted GFA	yoy %
2015	15,170	24%	1,887,000	40%
2016	25,600	69%	2,979,000	58%
2017	45,586	78%	4,487,800	51%
2018	91,280	100%	8,863,000	97%

SOURCE: CGS-CIMB RESEARCH, COMPANY

Given the presales mechanism in China, primary projects are usually delivered 1-2 years after they are sold. This suggests that the strong growth in China Aoyuan's contracted GFA in FY17-18 would translate to a sharp rise in Aoyuan Healthy Life's property management GFA in FY19-20F, as those projects are delivered by the parent company and passed on to the company to manage.

Based on China Aoyuan's contracted GFA in 2017-18 and the assumption of a 35% growth in 2019F, we estimate Aoyuan Healthy Life's property management GFA to increase by 4.0m/8.0m/10.8m sqm in FY19/20/21F. Furthermore, the company is looking to accelerate its expansion by managing properties developed by independent third-party developers following its successful listing in Mar 2019. We conservatively assume moderate GFA growth from third-party developers over FY19-21F such that projects from China Aoyuan will still account for more than 90% of Aoyuan Healthy Life's property management GFA.

Even with our conservative assumptions, we anticipate Aoyuan Healthy Life to achieve a strong uptick in GFA under management over FY19-21F, driven by organic growth from projects delivered by the parent group. We expect its property management GFA to reach 14.8m sq m in FY19F, 23.4m sq m in FY20F and 35.0m sq m in FY21F (representing a 50% CAGR over FY18-21F), with further upside risk from third-party projects.

Figure 13: Property management GFA – We estimate a 50% CAGR for GFA under management over FY18-21F

	2015	2016	2017	2018	2019F		
China Aoyuan's contracted GFA (m sqm)	1.9	3.0	4.5	8.9	12.0		
yoy %	NA	58%	51%	98%	35%		
	2015	2016	2017	2018F	2019F	2020F	2021F
Aoyuan Healthy Life's total GFA under mgnt (m sqm)	5.2	7.1	8.6	10.4	14.8	23.4	35.0
yoy %	NA	35%	21%	21%	43%	58%	49%
GFA from Aoyuan (m sqm)	5.2	7.0	8.2	9.9	13.9	21.9	32.7
<i>New add: from Aoyuan's GFA delivered (m sqm)</i>		1.7	1.2	1.7	4.0	8.0	10.8
GFA from 3rd party (m sqm)	0.0	0.1	0.4	0.6	0.9	1.5	2.3
<i>New add (m sqm)</i>		0.1	0.3	0.2	0.4	0.6	0.8
% of GFA from Aoyuan	100%	98%	95%	95%	94%	94%	93%

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

Meanwhile, Aoyuan Healthy Life's average management fee for property management services recorded a steady increase over 2015-18. We expect its average management fee to remain largely stable over FY19-21F. Overall, we expect the company's revenue from property management to increase from Rmb453m in FY18 to Rmb1,263m in FY21F.

Figure 14: Assumed growth for property management services

	FY15	FY16	FY17	FY18	FY19F	FY20F	FY21F
Property Management Revenue (Rmb m)	149	225	318	453	585	869	1,263
GFA under management (m sqm)	5.2	7.1	8.6	10.4	14.8	23.4	35.0
yoy %	NA	35%	21%	21%	43%	58%	49%
Average management fee (Rmb/sqm/month)	1.8	2.0	2.3	2.4	2.4	2.4	2.5
yoy %	NA	11%	12%	4%	1%	1%	3%
Sales assistance service - No. of projects	24	26	65	120	150	180	210
yoy %	NA	8%	150%	85%	25%	20%	17%

SOURCE: CGS-CIMB RESEARCH, COMPANY

Strong pipeline of shopping malls secured ➤

On top of property management services, Aoyuan Healthy Life provided commercial operational services to nine shopping malls in operation with GFA under management of 424,000 sq m as at 31 Dec 2018. It has also been contracted to provide commercial operational services to 25 shopping malls with a GFA of approximately 1.3m sq m as at end-2018, most of which are expected to be opened by 2021F. Together with the shopping malls currently under negotiation, we expect the number of shopping malls under Aoyuan Healthy Life's management to rise to 39 in FY21F, from 9 in FY18.

The company generates revenue from two phases. In the pre-opening phase, it provides market research and tenant-sourcing services 1-2 years before the mall opening. In the post-opening phase, the company assists in managing the operations of those shopping malls and typically shares 20% of the operating profit generated every year.

We estimate a sharp rise in commercial operating services revenue from Rmb166m in FY18 to Rmb385m in FY21F, based on the strong pipeline secured and our following assumptions: 1) 50k sq m per shopping mall, 2) average fixed fee of Rmb150-200/sq m in pre-opening phase, and 3) 20% profit sharing on average rent of Rmb70/sq m and operating profit margins of 75-80% in the post-opening phase,

Figure 15: Commercial operational services revenue and assumptions

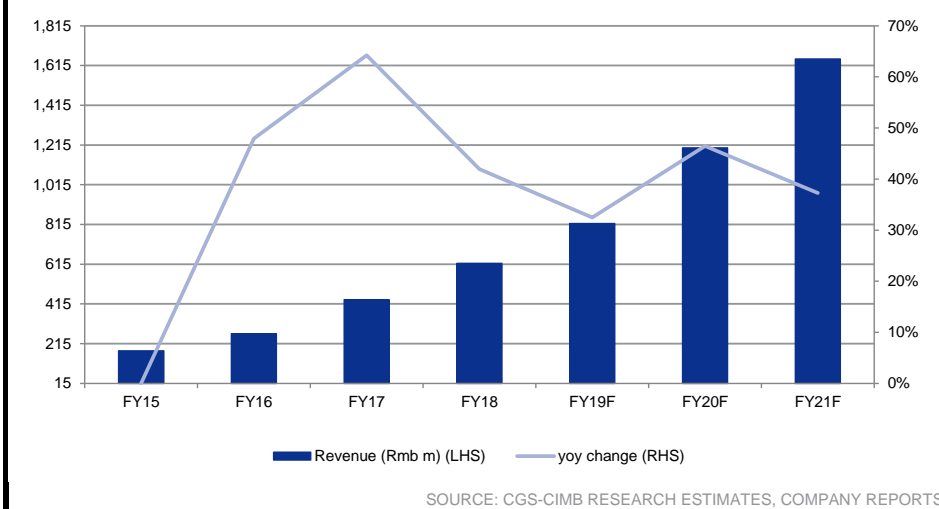
	FY15	FY16	FY17	FY18	FY19F	FY20F	FY21F
Commercial Operating Services Revenue (Rmb m)	30	41	118	166	235	332	385
(1) Market positioning and business tenant sourcing services	0	8	68	63	90	90	90
(2) Commercial operation and management services	30	33	50	103	145	242	295
No. of shopping malls opened	1	2	6	10	18	30	39
yoy %	NA	100%	200%	67%	80%	67%	30%

SOURCE: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Project revenue to increase by 39% p.a. over FY19-21F ➤

Given the company's rapid expansion in both the property management and commercial service segments, we project revenue growth of 32%/46%/37% in FY19/20/21F. By segment, we estimate its property management and commercial operational services to record 41% and 32% CAGR, respectively, over FY18-21F.

Figure 16: We expect company revenue to increase by 39% p.a. over FY19-21F

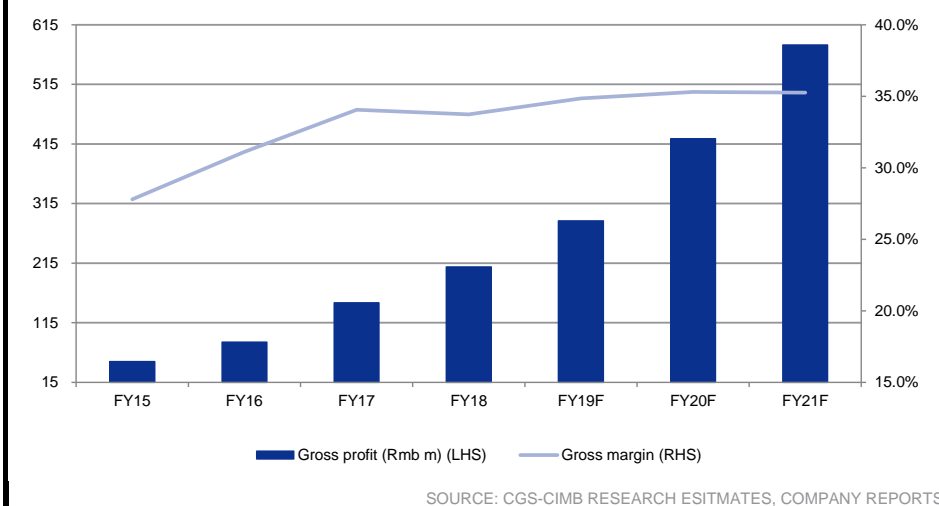


Gross margin to steadily improve to 35% in FY20F ➤

Aoyuan Healthy Life’s overall gross margin came in at 33.7% in FY18 (property management: 32.3%, commercial operational services: 37.7%), largely stable compared to the 34.1% achieved in FY17.

We expect its gross margins to see a steady uptrend in FY19-21F, thanks to its increased scale and enhanced cost-saving efforts, as well as the higher number of shopping malls to be opened, which typically generate higher gross margins of 50-60% during the initial phase. We forecast Aoyuan Healthy Life’s overall gross margin to gradually rise to 34.9% in FY19F and 35.3% in FY20F and FY21F.

Figure 17: Gross profit and gross margin – We estimate gross margin to improve to 35.3% in FY21F

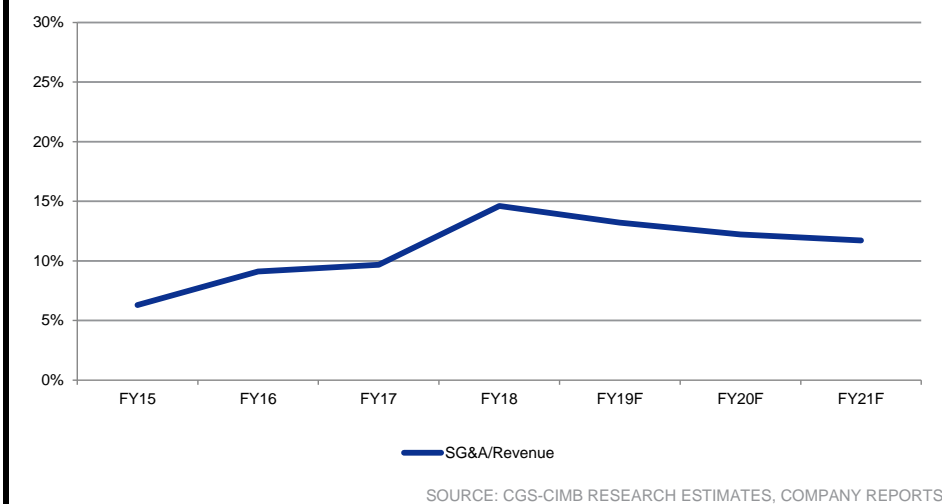


Cost of services accounted for 66.3% of revenue in FY18. Of the total cost of services, labour cost was the largest component (~60%), followed by cleaning and gardening expenses (~20%) and maintenance costs (~5%). Other major cost components were utility expenses, marketing and promotion expenses and materials and consumables.

SG&A costs rising with expansion into new businesses ➤

SG&A expenses accounted for 14.6% of its revenue in FY18, rising from 9.7% in FY17. We foresee this ratio staying high, with the company's expansion into the beauty and healthcare businesses. Overall, we estimate its SG&A-to-revenue ratio to peak at 14.6% in FY18F, before improving to 11.7% in FY21F following enhanced cost controls.

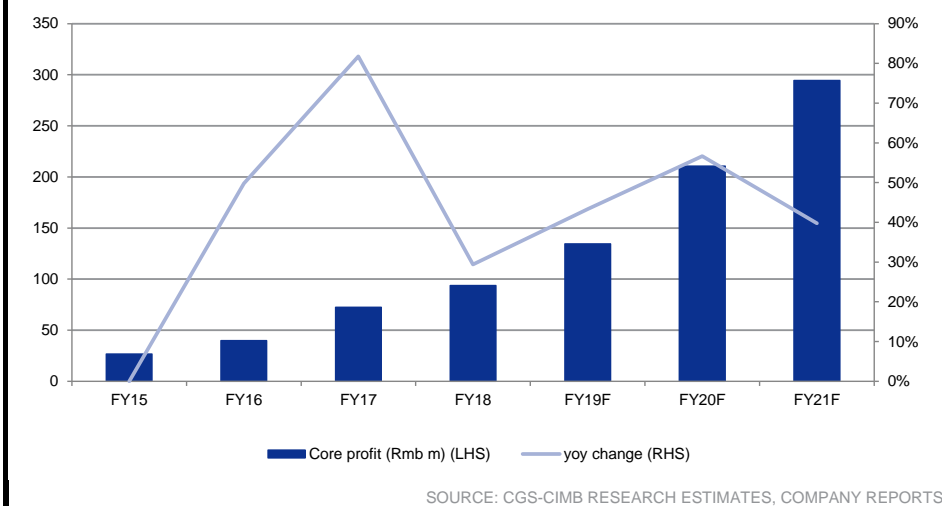
Figure 18: SG&A-to-revenue ratio rising following expansion into new businesses



Forecast core net profit CAGR of 46% over FY18-21F ➤

As we project the GFA under management of Aoyuan Healthy Life to rise sharply, coupled with steadily rising gross margins, we estimate its core net profit to increase to Rmb295m in FY21F from Rmb94m in FY18, translating into a CAGR of 46% over FY18-21F.

Figure 19: Core net profit to see CAGR of 46% over FY18-21F, based on our estimates



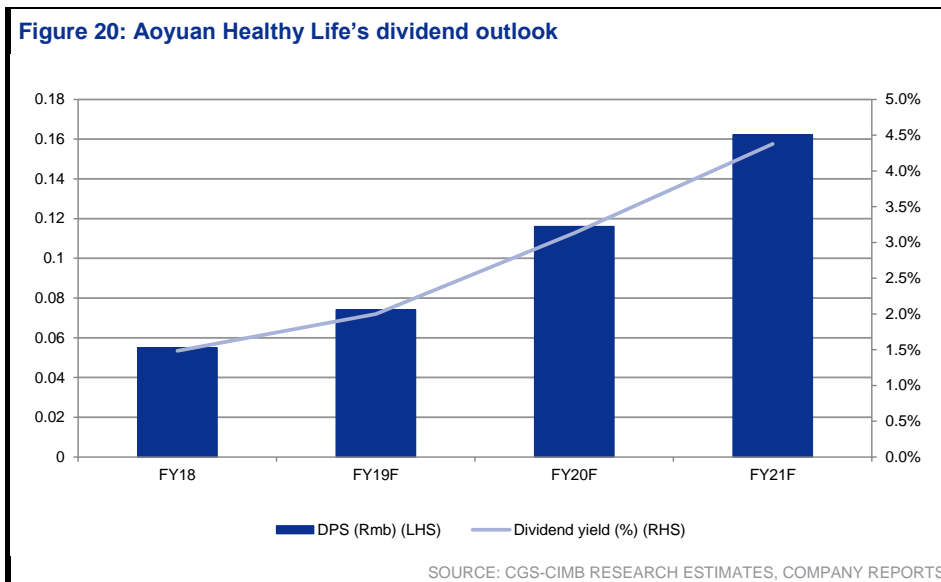
Trade receivables turnover days set to improve ➤

The company's trade receivables turnover days stood at 59 at 31 Dec 2018, rising slightly from 58 at end-2017. We expect the trade receivables turnover days to drop to around 45 in the near-term as: 1) the company becomes more stringent on collecting receivables from the parent group, and 2) the cash collection ratio from property owners continues to increase.

Dividend policy outlook ➤

On dividends, the management has indicated that it plans to stick to 40% dividend payout ratio. Based on its strong earnings growth, we expect a healthy increase in DPS, translating into dividend yields of 2.0-3.2% over FY19-20F, higher than its closest peers' average of 1.6-2.0%.

Figure 20: Aoyuan Healthy Life's dividend outlook



Already complies with latest social insurance regulations ➤

Regarding the latest social insurance regulation, management indicated that the company already complies with the rule on full payments being made. Hence, we should not expect its labour costs and earnings to be significantly affected by the government's latest regulation.

SWOT analysis

Figure 21: SWOT analysis

Strengths

- It is one of the few players in China with strong capabilities in both property management and commercial operational services
- It has a solid long-term business relationship with its parent China Aoyuan, a leading Chinese property developer.

Weaknesses

- Its trade receivables turnover days is relatively high (approximately 59 as at end-2018).

Opportunities

- The China property management industry has been undergoing rapid market consolidation. It is well-positioned to consolidate its leading position in the coming years through both organic growth and M&A.
- It is poised to continue benefitting from the extensive project reserves of China Aoyuan, which facilitates its rapid growth.

Threats

- It is subject to policy risks and may be affected by changes in taxes and governmental regulations that influence wages, prices or maintenance procedures.
- Its new business plans (traditional Chinese medicine services and medical beauty services) may not work out as planned, given it has little prior experience in these areas.

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

Valuation and recommendation

Among the valuation methodologies commonly used by the investment community, we believe P/E is the most relevant and appropriate approach to value the property management business.

There are six major HK-listed property management companies, namely Greentown Service Group (2869 HK, Not Rated), Colour Life Services (1778 HK, Not Rated), China Overseas Property Holdings (2669 HK, Not Rated), Country Garden Services (6098 HK, Not Rated), A-Living (3319 HK, Not Rated) and Xinchengyue Holdings (1755 HK, Not Rated).

Figure 22: Comparison of key metrics and valuation

Company	Stock code	Mkt cap (US\$m)	FY18 Revenue	% of revenue from prop mgt*	FY18		FY18 net profit	FY18 net margin	FY18 Total assets	GFA under mgt (m sqm)	2018F P/E (x)	2019F P/E (x)	2020F P/E (x)
					Gross Profit	Gross margin							
Greentown Service Group	2869 HK	2,383	6,710	67%	1,198	17.8%	483	7%	5,344	170.4	34	26	20
China Overseas Property Holdings	2669 HK	1,550	4,155	90%	849	20.4%	402	10%	3,557	140.9	31	24	20
Country Garden Services Holdings	6098 HK	4,872	4,675	74%	1,762	37.7%	923	20%	3,477	181.5	33	26	21
Xinchengyue Holdings	1755 HK	728	1,150	64%	339	29.5%	150	13%	814	42.9	25	22	13
Aoyuan Healthy Life Group Ltd	3662 HK	385	619	73%	209	33.7%	94	15%	503	10.4	28	20	13
Average											31	25	18
Colour Life Services Group	1778 HK	976	3,614	85%	1,282	35.5%	485	13%	10,066	363.2	13	11	9
A-Living Services Co Ltd	3319 HK	2,155	3,377	48%	1,290	38.2%	801	24%	7,297	138.1	18	14	11

Note: Revenue, profit and asset figures in Rmb m for all companies except China Overseas Property (in HK\$m)
 SOURCE: CGS-CIMB RESEARCH, BLOOMBERG (AS AT 29 APR 2019)

In our opinion, Colour Life is not a good benchmark for Aoyuan Healthy Life given the difference in business model (a higher portion of its revenue is commission-based instead of lump sum-based). Also, the market cap of its parent group is much smaller than that of Aoyuan Healthy Life and the other five companies. Investors are typically willing to pay a valuation premium for a property management company with the backing of a leading property developer, given the higher GFA growth visibility.

We also exclude A-Living as a peer because a significant portion of its revenue comes from value-added services (VAS) such as commissions from property sales (43% in FY18), which are non-recurring in nature and subject to greater regulatory risk.

The remaining four companies that we have identified as Aoyuan Healthy Life's closest peers trade at an average FY20F P/E of 18x. Based on this multiple and our FY20F core EPS estimate of Rmb0.29 (or HK\$0.33), we arrive at our target price of HK\$6.00.

We initiate with an Add rating given Aoyuan Healthy Life's strong earnings growth prospects and attractive valuations.

Key risks include profit margin compression amid rising labour costs, regulatory risk in the form of management fee regulation and slowdown in China's economy.

Background

A renowned property management service and commercial operational service provider ➤

Figure 23: Key events

Company's key events

2000	Its predecessor Guangzhou Aoyuan was established in Guangzhou.
2011	It commenced its property management services business in the PRC.
2012	It was certified under ISO 9001:2008 quality management system certification for the quality of its property management services.
2013	It commenced its commercial operational services business in the PRC.
2015	It expanded its property management services business to Chongqing Municipality, Liaoning Province, Jiangsu Province and Guangxi Province in the PRC.
2016	It was honored as one of the Top 100 Property Management Companies in China (中國物業服務百強企業) by CIA for the three consecutive years commencing from 2016.
2017	It expanded its property management services business to Beijing, Shandong Province, Sichuan Province, and Zhejiang Province in the PRC.
2018	It was awarded the 2017-2018 Excellent Light Assets Operator in Commercial Property (2017-2018年度商業地產優秀輕資產運營商) and the 2017 – 2018 Innovation Performance Award in Commercial Property (2017 – 2018年度商業地產創新表現獎) by Commercial Property Golden Awards Selecting Committee (商業地產金坐標獎評選委員會) and Winshang.com (贏商網).

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

Corporate history ➤

The history of the company can be traced back to Jun 2000, when Guangzhou Aoyuan Property Services Company Limited (Guangzhou Aoyuan), its first operating subsidiary in the People's Republic of China (PRC), was established by Zhong Ti Assets Group Company Limited (Zhong Ti), Shenyang Hua Xin International Company Limited (Shenyang Huaxin) and Aoyuan Limited. At the date of establishment, Guangzhou Aoyuan was approximately 33.3%-owned by Zhong Ti, 33.3% by Shenyang Huaxin and 33.3% by Aoyuan Limited, respectively. Zhong Ti and Shenyang Huaxin are independent third parties.

Since its establishment, Guangzhou Aoyuan has undertaken a series of equity transfers and as at 12 Jul 2007 (the listing date of China Aoyuan on the Hong Kong Stock Exchange), Guangzhou Aoyuan was approximately 83.3%-owned by Aoyuan Limited and approximately 16.7%-owned by Panyu Jin Ye Real Estate Development Company Limited (Panyu Jin Ye Yuan). The registered capital of Guangzhou Aoyuan was reduced to Rmb10m on 17 Oct 2011. As at 1 Jan 2015, Guangzhou Aoyuan was approximately 83.3%-owned by Aoyuan Limited and approximately 16.7%-owned by Panyu Jin Ye Yuan.

On 8 May 2017, Guangdong Aoyuan Commercial Property Management Company Limited (Aoyuan Commercial Property Management) entered into an equity transfer agreement with Aoyuan Limited and Panyu Jin Ye Yuan, pursuant to which Aoyuan Limited and Panyu Jin Ye Yuan agreed to transfer their respective equity stakes of approximately 83.3% and 16.7% in Guangzhou Aoyuan to Aoyuan Commercial Property Management for consideration of Rmb8,332,000 and Rmb1,668,000, respectively (determined based on the then-registered capital of Guangzhou Aoyuan at the time of the transfer). Upon the completion of the transfer, Guangzhou Aoyuan became wholly-owned by Aoyuan Commercial Property Management.

Pre-IPO investments ➤

On 23 May 2018, the company entered into pre-IPO investment agreements with: 1) Dawn Agile Limited (Unlisted) for a consideration of Rmb58.5m, and 2) Winfield Investment Limited (Unlisted) for a consideration of Rmb15m. Both pre-IPO investments were properly and legally completed and settled on 30 May 2018.

Information about pre-IPO shareholders >

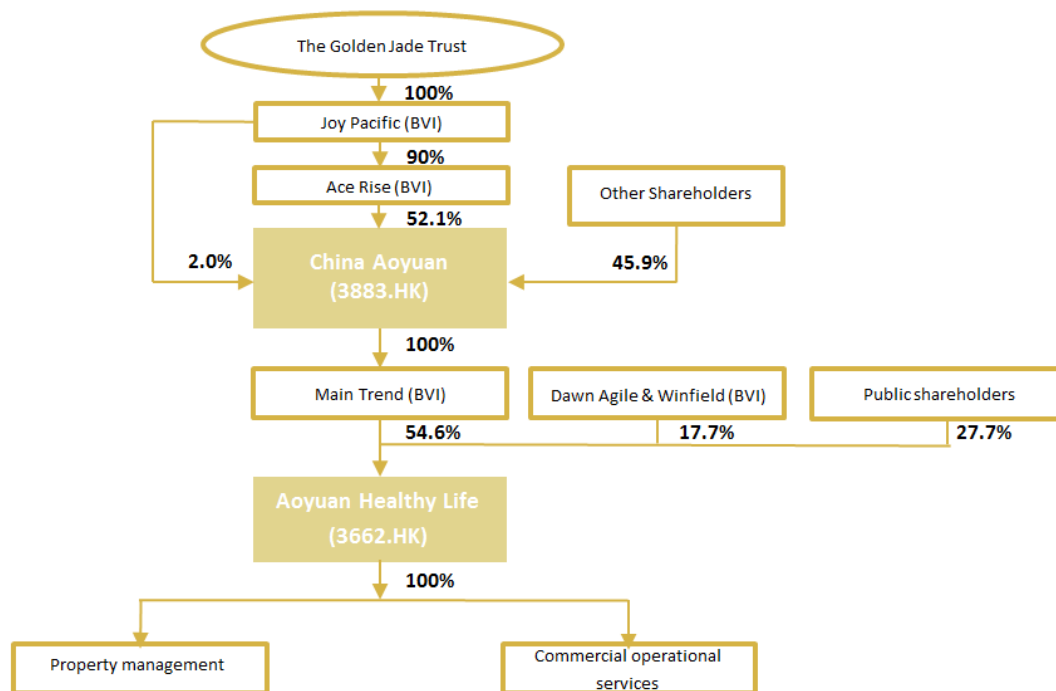
Dawn Agile

Dawn Agile is an investment holding company incorporated in the BVI with limited liability on 7 Feb 2018. It is wholly-owned by Pine Capital Partners LP (Pine Capital, Unlisted). Pine Capital is an exempted limited partnership registered in the Cayman Islands on 20 Feb 2018 and a private fund that is principally engaged in private equity investments (with focus on investments in companies carrying out real estate/property management services), and managed by Pine General Partners Limited (Pine GP, Unlisted) as its general partner. Pine GP is an exempted limited company incorporated under the laws of Cayman Islands on 13 Feb 2018 and wholly-owned by Mr Chiu Man Wai.

Winfield Investment

Winfield Investment is an investment holding company incorporated in the BVI with limited liability on 26 Feb 2018, which is wholly-owned by Winfield Capital Partners LP (Winfield Capital, Unlisted). Winfield Capital is an exempted limited partnership registered in the Cayman Islands on 20 Feb 2018 and a private fund that is principally engaged in private equity investments (with focus of investments in companies carrying out real estate/property management services), and managed by Winfield GP Limited (Winfield GP, Unlisted) as its general partner. Winfield GP is an exempted limited company incorporated under the laws of Cayman Islands on 13 Feb 2018 and is also wholly-owned by Mr Chiu Man Wai.

Figure 24: Corporate structure of China Aoyuan and Aoyuan Healthy Life (as at Apr 2019)



SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 25: Director and key management information

Name	Age	Date of joining company	Date of appointment	Present Position	Roles and responsibilities	Remark
Mr. Miao Sihua (苗思華)	54	16-Sep-13	6-Jun-18	Executive Director	Supervising the overall management and operation	None
Mr. Tao Yu (陶宇)	25	6-Jun-18	6-Jun-18	Executive Director	Overseeing the strategy formulation and management of the capital operation and business acquisitions	son-in-law of Mr. Guo Ziwen (controlling shareholder and younger brother of Mr. Guo Zining)
Mr. Guo Zning (郭梓寧)	57	13-Dec-16	13-Dec-16	Chairman of the Board and non-executive Director	Supervising the overall management and strategic planning	elder brother of Mr. Guo Ziwen (controlling shareholder)
Mr. Chen Zhibin (陳志斌)	37	6-Jun-18	6-Jun-18	Non-executive Director	Supervising the overall management and strategic planning	None
Mr. Hung Ka Hai Clement (洪嘉禧)	63	NA	NA	Independent non-executive Director	Supervising and providing independent judgment to the Board	None
Dr. Li Zijun (李子俊醫生)	54	NA	NA	Independent non-executive Director	Supervising and providing independent judgment to the Board	None
Mr. Wang Shao (王韶)	47	NA	NA	Independent non-executive Director	Supervising and providing independent judgment to the Board	None
Mr. Xu Xiaodong (徐曉東)	35	28-Nov-16	28-Nov-16	Chief financial officer and director of Financial Management Division	The management of capital and financial operation of the Group	None
Mr. Lei Yiqun (雷易群)	37	27-Feb-15	27-Feb-15	Vice president and general manager of Commercial Operation Division	The management of the daily operation of commercial operational services business and property management services business	None
Mr. Jiang Yue (姜玥)	46	22-Jun-15	22-Jun-15	Vice president and general manager of Property Management Division	The management of the daily operation of property management services business and commercial operational services business	None
Mr. Fu Kuan (付寬)	40	12-Feb-14	12-Feb-14	Deputy general manager of Property Management Division and Commercial Operation Division	Engineering management of property management services business and commercial operational services business	None
Ms. Chen Rong (陳蓉)	44	25-Oct-13	25-Oct-13	Assistant general manager of Property Management Division and Commercial Operation Division; deputy director of Financial Management Division	Financial management of property management services business and commercial operational services business	None
Ms. Jin Yuru (金昱如)	42	12-Feb-14	12-Feb-14	Assistant general manager of Property Management Division and Commercial Operation Division	Administrative and human resources management of property management services business and commercial operational services business	None

Note: Please refer to Appendix for detailed information about management
 SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

Property management industry in China

China's property management industry overview ➤

The history of China's property management industry can be traced back to 1981, when the first property management company was formed in Shenzhen. With the Provisions of Property Management (物業管理條例) promulgated in 2003, an open and fair market system was established, which stimulated rapid growth in the sector. The industry now services a wide range of properties, including residential properties, office buildings, shopping centres, industrial facilities etc.

The total GFA of properties under management in China has grown rapidly. According to Savills, the total GFA of properties under management rose from 12.6bn sq m in 2010 to 19.5bn sq m in 2017 (representing a 6% CAGR).

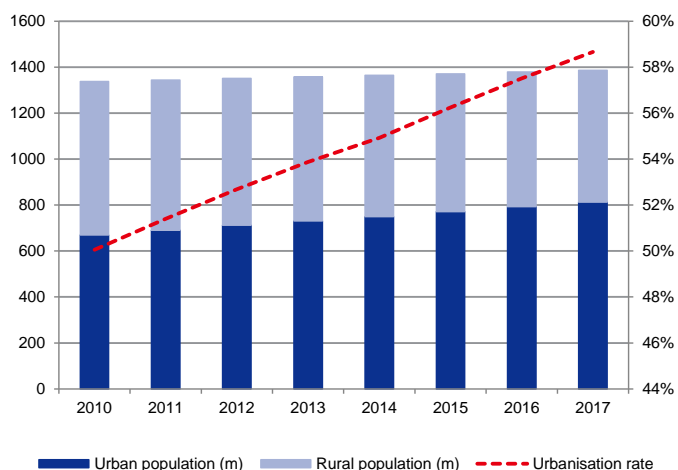


Meanwhile, the total operating income of property management companies reached approximately Rmb350bn in 2014, with growth mainly attributable to the increase in total GFA of properties under management, the diversification of services and the increasing use of intelligent communities facilitated by the Internet, which helped to generate income and reduce operating costs.

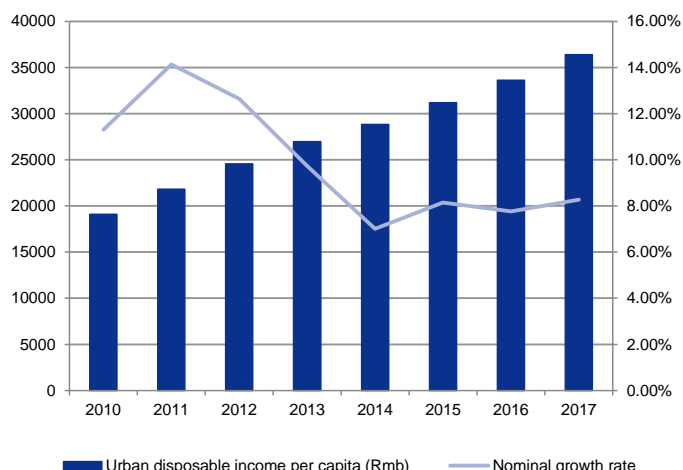
Industry growth driven by urbanisation, rise in disposable income and favourable government policies ➤

Rapid urbanisation, continuous growth in China's GDP and disposable income per capita have been the key growth drivers for the industry, in our view. According to Savills, China's urbanisation rate increased from 49.9% in 2010 to 58.5% in 2017. Meanwhile, the country's disposable income per capita increased by a CAGR of 9.6% between 2010 to 2017, when it reached Rmb36k.

With the fast economic growth and emergence of middle- to high-income group, Chinese consumers are increasingly demanding better living conditions and high-quality property management services.

Figure 27: Population size and urbanisation rate in China


SOURCE: SAVILLS

Figure 28: Urban disposable income per capita in China


SOURCE: SAVILLS

Meanwhile, the supply of commodity properties also surged. The total GFA of commodity properties sold increased from 1,048 m sq m in 2010 to 1,694 m sq m in 2017 (representing a CAGR of 7.1%). The healthy increase in supply also supported growth of China's property management industry.

Figure 29: GFA of completed properties and GFA of properties sold in 2010-17

(m sqm)	GFA of completed properties			GFA of properties sold		
	Residential	Non-residential	Total	Residential	Non-residential	Total
2010	634	153	787	934	114	1,048
2011	717	176	892	965	128	1,094
2012	790	204	994	985	128	1,113
2013	787	227	1,014	1,157	148	1,306
2014	809	266	1,075	1,052	155	1,207
2015	738	263	1,000	1,124	161	1,285
2016	772	289	1,061	1,375	198	1,574
2017	718	297	1,015	1,448	246	1,694
CAGR	1.8%	9.9%	3.7%	6.5%	11.7%	7.1%

SOURCE: NATIONAL BUREAU OF STATISTICS OF THE PRC, SAVILLS

Since 2003, a number of laws and rules regulating various aspects of the property management industry have come into effect, and various government policies have been enacted to promote the development of the property management industry, such as the Provisions on Property Management (《物業管理條例》), the Circular of the National Development and Reform Commission (NDRC) on the Opinions of Relaxing Price Controls in Certain Services (《國家發展改革委關於放開部分服務價格意見的通知》) and the Guidance on Accelerating the Development of the Resident Service Industry to Promote the Upgrading of Consumption Structure (《關於加快發展生活性服務業促進消費結構升級的指導意見》). These laws and policies jointly create a supportive and orderly environment for the development of the property management industry and property management companies, in our opinion.

Rapid market consolidation ➤

The property management industry has become more concentrated over the past few years, with large-scale property management companies accelerating their expansion through organic growth and M&As in order to gain market share. The market share of the top 100 property management companies in China (in terms of GFA under management) increased from 13.5% in 2012 to 32.4% in 2017 (19% CAGR) and is projected to rise to 56.2% in 2025F, according to Savills.



Commercial operational service industry in China ➤

The commercial operational service industry refers to the provision of consultancy and/or operational services to commercial properties from the design and construction stage to the handover and operation stage. Commercial properties are defined as different types of shopping centre, as well as other components and formats including open or enclosed strip centres (步行街) within large-scale mixed-use developments.

According to Savills, the total number of shopping malls in China increased from more than 4,000 at Dec 2016 to more than 4,500 in 2017, driven by a steady increase in retail sales in China. Total shopping mall inventory in terms of GFA reached 429m sq m in 2017, and acted as the service base for commercial operational service providers. Total revenue attributable to the commercial operational service industry reached Rmb137bn in 2017.

The service scope and responsibilities of commercial operational service providers in China are continuously evolving and expanding, depending on the location, scale and complexity of the commercial property and customer demands. Competent providers can provide a full set of consultancy and operational services from design and development stage for up to 10 years and after the mall is opened for business and operation.

Figure 31: Service scope of commercial operational service providers

Design, Development and Project Management	Retail management and Leasing Management	Marketing & Promotion	Property Management	Operation Strategy	Enhancement Programmes
Location, accessibility and market positioning studies	Tenant sourcing and lease renewals	Planning, preparation and contracting for advertising & promotional programmes	Pre-marketing support	General management services	Rationalise use of space
Shop drawing and as built drawing advice	Tenant relationship management	Advice on marketing and public relations	Property hand-over / taking over	Financial and accounting services	Enhance existing attractions to enhance customer experience
Concept design advice	Conducting site viewings	Appointing advertising and PR agencies	Supervision of tenants' fitting out	Contract and legal management services	Addition & alteration work to enhance store layout efficiency
Project management and advice	Rental collection and arrears management	Customer surveys and studies	Maintenance management of facilities	HR and administrative services	Retrofit programme to create leaseable area
	Monitoring sales performance of tenants	Catchment area study	Administrative management (insurance, building safety, cost management)	Execution of tenancy retention programme	Create unique lifestyle experience to acquire customer base
	Annual budgets and business plans	Brand study and management	Preparing and managing term contracts	Corporate communications	

SOURCE: SAVILLS

Competitive landscape ➤

Majority of the commercial operational service operators in China are affiliated or directly linked to property developers. According to Savills, the number of commercial operational service providers reached 2,500 at the end of 2017. There are numerous small-scale independent service providers in the industry, but the market is heavily fragmented and this group of independent service providers is limited to providing services to certain segments of the market, such as retail podia, or consultancy services during the design and development stages.

Property developer-affiliated operators have been expanding their services outward to independent shopping mall owners. According to Savills, around 61 shopping malls (6.3% of the total number of shopping malls opened in 2017), with an aggregate volume of 4.35m sq m (4.4% of total GFA of shopping malls opened in 2017), opted to open under one licensed shopping mall brand and operate through another property developer-affiliated operator. We expect the concentration of property developer-affiliated operators to speed up in the next few years.

Appendix I: Information about directors and senior management

Mr Miao Sihua (苗思華), aged 54, was appointed as Director on 6 Jun 2018 and was redesignated executive Director on 9 Jul 2018 and responsible for supervising the overall management and operation of the Group. Mr Miao has been serving as the president of the Group since 16 Sep 2013 and has been appointed as a director of its certain subsidiaries. He was a vice president of China Aoyuan and had been appointed as director of certain members of the Parent Group. Mr Miao has over five years of experience in property management and commercial operation management. Prior to joining China Aoyuan, Mr Miao worked as a general manager of Zhongtian Urban Group Business Management Company Limited, a company principally engaged in the commercial property investment, commercial real estate management, where he was primarily responsible for overall management and operation of the Company from Jul 2012 to Aug 2013.

Mr Miao received a bachelor's degree in Heating Ventilation and Air Conditioning Engineering from Tong Ji University in the PRC in Sep 1987 and a master's degree in Business Administration from the Asia Metropolitan University in Malaysia in Dec 2017.

Mr Tao Yu (陶宇), aged 25, was appointed as Director on 6 Jun 2018 and was re-designated as executive Director on 9 Jul 2018 and responsible for overseeing the strategy formulation and management of the capital operation and business acquisitions of the Group. Mr Tao worked in Aoyuan Property Group (Australia) Pty Ltd, a subsidiary of China Aoyuan, as a finance analyst primarily responsible for the management of the key financial debt facilities providers from Sep 2016 to Apr 2018; and a capital transaction manager primarily responsible for the daily operation and strategic advice on business acquisition from Feb 2017 to Apr 2018. Mr Tao received a bachelor's degree in Project Management from Nanjing Auditing University in the PRC in Jun 2015 and a master's degree in Commerce in Finance and Business Analytics from The University of Sydney in Australia in Oct 2017.

Mr Guo Zining (郭梓寧), aged 57, is the chairman of the Board and was appointed as Director on 13 Dec 2016 and was re-designated as non-executive Director on 9 Jul 2018. Mr Guo has been serving China Aoyuan for over 20 years and is currently an executive director, a vice chairman and chief executive officer of China Aoyuan as well as a director in certain subsidiaries of China Aoyuan, and he is primarily responsible for commercial property investment, development and operation, and leads the party committee, trade union and corporate culture of China Aoyuan. In Dec 2016, he obtained a master's degree in Business Administration from City University of Macau (formerly known as Asia International Open University (Macau)) in Macau. In Jul 2015, he obtained a certificate of postgraduate doctor in Business Administration from Beijing Normal University in the PRC. In Nov 2015, he obtained a doctoral degree in Business Administration from Nueva Ecija University of Science and Technology in the Philippines. In Sep 2016, he obtained a post-doctoral certificate from the California State University Monterey Bay in California.

Mr Chen Zhibin (陳志斌), aged 37, was appointed as Director on 6 Jun 2018 and was re-designated as non-executive Director on 9 Jul 2018. Mr Chen is currently a vice president and head of finance centre of China Aoyuan and primarily responsible for the overall capital markets operation and financial management of China Aoyuan. Prior to joining China Aoyuan, Mr Chen served as a general manager of finance department of Fantasia Group (China) Company Limited, a subsidiary of Fantasia Holdings Group Company Limited whose shares have been listed on the Stock Exchange (stock code: 1777) since Nov 2009 and principally engaged in the provision of property development in

the PRC, where he was primarily responsible for the financial management of the Company from Oct 2012 to May 2014. Mr Chen received a bachelor's degree in Finance from the Sun Yat-Sen University in the PRC in Jun 2004.

Mr Hung Ka Hai Clement (洪嘉禧), aged 63, is an independent non-executive Director. He is primarily responsible for supervising and giving independent judgement to the Board. Mr Hung had served Deloitte China for 31 years where he had assumed various leadership roles before he served as the chairman of Deloitte China from Jun 2014 to May 2016. He retired as the chairman of Deloitte China with effect from Jun 2016. When Mr Hung was working with Deloitte China, he had assumed various leadership roles, including, the office managing partner of Deloitte Shenzhen Office and Guangzhou Office.

Dr. Li Zijun (李子俊), aged 54, is an independent non-executive Director. He is primarily responsible for supervising and giving independent judgement to the Board. Dr. Li is currently the chief of the East Medical District and the head physician of Gastroenterology in Guangdong General Hospital. Dr. Li obtained a master's degree in Internal Medicine from Tongji Medical College in the PRC in Jun 1992, and a doctor's degree in Internal Medicine by Sun Yat-Sen Medical University in the PRC in Jul 2001.

Mr Wang Shao (王韶), aged 47, is an independent non-executive Director. He is primarily responsible for supervising and giving independent judgement to the Board. Since Aug 2017, Mr Wang has been serving as an external supervisor of A-Living Services Company Limited whose shares have been listed on the Stock Exchange (Stock Code: 3319) and a reputable property management services provider in China, where he is responsible for supervising the board and the senior management of the company. He obtained a diploma from Sun Yat-Sen University in the PRC majoring in real estate brokerage and management in Jun 1995, and obtained a bachelor's degree in Administration Management from the same university in Jul 1999.

Mr Xu Xiaodong (徐曉東), aged 35, is the chief financial officer of the Group and director of the Financial Management Division and responsible for the management of capital and financial operation of the Group. Mr Xu joined the Group on 28 Nov 2016 and has also been appointed as a director of the certain subsidiaries. Mr Xu received a bachelor's degree in Science from the London School of Economics and Political Science in the University of London in Jul 2007 in the United Kingdom.

Mr Lei Yiqun (雷易群), aged 37, is the vice president of the Group and general manager of the Commercial Operation Division and responsible for the management of the daily operation of the commercial operational services business, and also participated in the management of the property management services business. Mr Lei received a bachelor's degree in Business Management from the Technical Colleague of Zhuzhou in the PRC in Jun 2005.

Mr Jiang Yue (姜玥), aged 46, is the vice president of the Group and general manager of the Property Management Division and responsible for the management of the daily operation of the property management services business, and also participated in the management of the commercial operational services business. Mr Jiang has over 15 years of experience in property management. Mr Jiang received a master's degree in Business Management in the Asia Metropolitan University in Malaysia in Dec 2017.

Mr Fu Kuan (付寬), aged 40, is the deputy general manager of the Property Management Division and Commercial Operation Division and responsible for engineering management of the property management services business and

commercial operational services business. Mr Fu received a bachelor's degree in Electrical Engineering and Automation from the Technical College of Chongqing (currently known as Chongqing University of Technology) in the PRC in Jul 2000.

Ms Chen Rong (陳蓉), aged 44, is the assistant general manager of the Property Management Division and Commercial Operation Division, and deputy director of the Financial Management Division and responsible for the financial management of the property management services business and commercial operational services business. Ms Chen has extensive experience in the accounting and financial management. She served as a manager of the finance department in China Aoyuan from Aug 2006 to Oct 2013 and was responsible for accounting and financial management of China Aoyuan. Ms Chen received a bachelor's degree in Accounting from the Guangdong Ocean University in the PRC in Jan 2007.

Ms Jin Yuru (金昱如), aged 42, is the assistant general manager of the Property Management Division and Commercial Operation Division and responsible for the administrative and human resources management of the property management services business and commercial operational services business. Ms Jin joined the Group on 12 Feb 2014 and she had been serving China Aoyuan for over 10 years. Ms Jin received a bachelor's degree in Corporate Management from the Nanjing University of Science and Technology in the PRC in Oct 1999.

Appendix II: Summary of commercial property portfolio

Figure 32: Portfolio of commercial properties under Aoyuan Healthy Life's management

Shopping mall	Opening date	Location	Contract effective date	Contract term (years)	Contracted GFA (sqm)	Revenue model
Market positioning and business tenant sourcing services and commercial operation and services						
Jiaoling Aoyuan Plaza (蕉嶺奧園廣場)	Sep-16	Meizhou	May-15	20	20,000	Income sharing basis
Wuhua Aoyuan Plaza (五華奧園廣場)	Jan-17	Meizhou	Aug-15	20	26,000	Income sharing basis
Chongqing Panlong No.1 (重慶盤龍一號)	Dec-17	Chongqing	Jan-16	20	50,000	Income sharing basis
Zhuhai Aoyuan Plaza (珠海奧園廣場)	Jul-18	Zhuhai	Jun-16	20	69,000	Income sharing basis
Shishan Aoyuan Plaza (獅山奧園廣場)	Dec-18	Foshan	Jan-17	20	47,000	Income sharing basis
Shaoguan Yinxiang Lingnan (韶關印象嶺南)	Dec-17	Shaoguan	Jan-16	From contract effective date to opening date	44,000	N/A
Jiangmen Aoyuan Plaza (江門奧園廣場)	Dec-17	Jiangmen	Dec-16	20	105,000	Income sharing basis
Shenyang Aoyuan (瀋陽奧園)	N/A	Shenyang	Sep-15	From contract effective date to opening date	15,000	N/A
Market positioning and business tenant sourcing services only						
Guangzhou Aoyuan City Plaza (廣州奧園城市天地)	Jan-16	Guangzhou	Jan-16	2	137,000	N/A
commercial operation and management services only						
Panyu Aoyuan Plaza (番禺奧園廣場)	Dec-16	Guangzhou	Dec-12	10	140,000	Income sharing basis

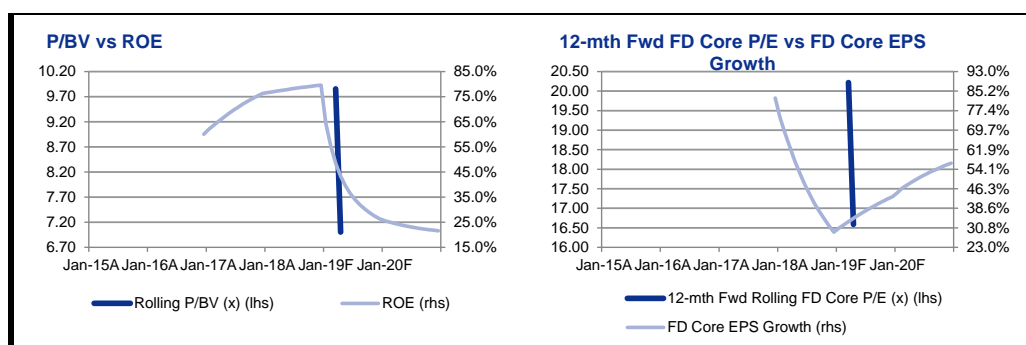
SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 33: Commercial properties contracted in Aoyuan Healthy Life's pipeline

Shopping mall	Expected opening date	Location	Contract effective date	Contract term (years)	Contracted GFA (sqm)	Revenue model
Market positioning and business tenant sourcing services and commercial operation and services						
Chongqing Chayuan Aoyuan Plaza (重慶茶園奧園廣場)	Jun-18	Chongqing	Jan-16	20	41,000	Income sharing basis
Chongqing International City (重慶國際城)	Dec-20	Chongqing	Jan-16	20	22,000	Income sharing basis
Luogang Aoyuan Plaza (蘿崗奧園廣場)	Dec-18	Guangzhou	Jan-18	10	35,000	Income sharing basis
Huizhou Ganghui New City (惠州港薈新城)	N/A	Huizhou	Dec-17	10	31,000	Profit sharing basis
Huaihua Yixian International Commercial Street (懷化壹線國際商業街)	Dec-18	Huaihua	Dec-17	10	60,000	Profit sharing basis
Duyun Aoyuan Plaza (都勻奧園廣場)	Oct-19	Duyun	Apr-18	10	70,000	Profit sharing basis
Panzhou Deyuan New World (盤州德遠新天地)	Jan-19	Panzhou	May-18	10	45,000	Income sharing basis
Tangshan Xiangmulin Plaza (唐山香木林廣場)	Dec-18	Tangshan	Jun-17	10	125,000	Profit sharing basis
Bazhong Ba River Bridge (巴中巴河廊橋)	Oct-19	Bazhong	Jan-18	10	34,000	Profit sharing basis
Meizhou Jiye Shangcheng Plaza (梅州集一尚城廣場)	Oct-20	Meizhou	Feb-18	10	52,000	Profit sharing basis
Fuyang Carnival Plaza (阜陽嘉年華廣場)	Oct-20	Fuyang	Apr-18	10	35,000	Profit sharing basis
Fuzhou Project (撫州項目)	N/A	Fuzhou	May-18	10	32,000	Profit sharing basis
Market positioning and business tenant sourcing services only						
Liuyang Aoyuan Plaza (瀏陽奧園廣場)	Oct-19	Liuyang	Jul-17	From contract effective date to opening date	27,000	N/A
Yulin Aoyuan Plaza (玉林奧園廣場)	May-19	Yulin	May-18	From contract effective date to opening date	56,000	N/A

SOURCE: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues	436.0	618.8	819.8	1,200.7	1,648.0
Gross Profit	148.5	208.8	285.8	423.8	581.0
Operating EBITDA	106.2	118.4	177.4	277.1	388.0
Depreciation And Amortisation	0.0	0.0	0.0	0.0	0.0
Operating EBIT	106.2	118.4	177.4	277.1	388.0
Financial Income/(Expense)	(5.8)	(9.9)	2.0	3.7	4.6
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	100.4	108.5	179.4	280.9	392.6
Exceptional Items					
Pre-tax Profit	100.4	108.5	179.4	280.9	392.6
Taxation	(30.5)	(30.2)	(44.8)	(70.2)	(98.1)
Exceptional Income - post-tax					
Profit After Tax	69.9	78.3	134.5	210.7	294.4
Minority Interests	0.2	0.1	0.1	0.1	0.1
Pref. & Special Div	0.0	0.0	0.0	0.0	0.0
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	2.7	15.7	0.0	0.0	0.0
Net Profit	72.8	94.0	134.7	210.8	294.5
Recurring Net Profit	72.8	94.0	134.7	210.8	294.5
Fully Diluted Recurring Net Profit	72.8	94.0	134.7	210.8	294.5

Cash Flow

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
EBITDA	106.2	118.4	177.4	277.1	388.0
Cash Flow from Invnt. & Assoc.					
Change In Working Capital	(63.4)	2.0	(102.5)	(36.1)	(118.7)
Straight Line Adjustment	2.3	2.4	2.9	3.5	4.2
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	2.0	5.2	6.7	8.7	11.4
Other Operating Cashflow	(3.5)	(21.0)	4.7	6.4	6.4
Net Interest (Paid)/Received	(0.4)	(0.6)	(2.0)	(3.7)	(4.6)
Tax Paid	(3.1)	(24.2)	(35.9)	(56.2)	(78.5)
Cashflow From Operations	37.7	79.8	48.5	196.2	203.9
Capex	(2.6)	(4.2)	(5.5)	(7.1)	(9.2)
Disposals Of FAs/subsidiaries					
Disposals of Investment Properties					
Acq. Of Subsidiaries/Investments	(2.3)	(3.4)	(5.2)	(7.8)	(11.6)
Other Investing Cashflow	10.5	14.6	20.2	27.4	35.4
Cash Flow From Investing	5.6	6.9	9.6	12.6	14.5
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	0.0	0.0	673.7	0.0	0.0
Shares Repurchased					
Dividends Paid	0.0	0.0	(37.5)	(53.8)	(84.2)
Preferred Dividends					
Other Financing Cashflow	51.4	67.0	87.3	113.7	148.1
Cash Flow From Financing	51.4	67.0	723.5	60.0	63.9

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	164.4	200.3	1,113.3	1,383.0	1,667.6
Properties Under Development					
Total Debtors	377.4	263.2	247.6	308.4	472.0
Inventories	0.1	0.1	0.1	0.1	0.2
Total Other Current Assets	11.2	9.5	12.3	16.0	20.9
Total Current Assets	553.0	473.1	1,373.4	1,707.5	2,160.6
Fixed Assets	5.6	12.7	14.4	16.9	20.3
Total Investments	0.0	0.0	0.0	0.0	0.0
Intangible Assets	7.4	6.5	7.4	8.6	10.2
Total Other Non-Current Assets	4.9	10.7	13.7	17.4	22.4
Total Non-current Assets	17.9	30.0	35.5	42.9	52.8
Short-term Debt	0.0	1.8	1.8	1.8	1.8
Current Portion of Long-Term Debt					
Total Creditors	393.6	353.7	482.4	658.8	900.8
Other Current Liabilities	65.3	20.5	26.7	34.7	45.1
Total Current Liabilities	458.9	376.0	510.9	695.3	947.7
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1.0	0.8	1.0	1.3	1.7
Total Non-current Liabilities	1.0	0.8	1.0	1.3	1.7
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	459.9	376.8	511.9	696.6	949.4
Shareholders' Equity	110.5	125.7	896.3	1,053.1	1,263.2
Minority Interests	0.5	0.6	0.7	0.8	0.9
Total Equity	111.0	126.3	897.0	1,053.9	1,264.1

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	64.2%	41.9%	32.5%	46.5%	37.3%
Operating EBITDA Growth	81.9%	11.4%	49.9%	56.2%	40.0%
Operating EBITDA Margin	24.4%	19.1%	21.6%	23.1%	23.5%
Net Cash Per Share (Rmb)	0.23	0.27	1.53	1.90	2.29
BVPS (Rmb)	0.15	0.17	1.23	1.45	1.74
Gross Interest Cover	N/A	N/A	N/A	N/A	N/A
Effective Tax Rate	0%	0%	0%	0%	0%
Net Dividend Payout Ratio	NA	32.1%	30.0%	30.0%	30.0%
Accounts Receivables Days	50.57	51.41	53.91	47.34	43.85
Inventory Days	0.13	0.08	0.06	0.05	0.05
Accounts Payables Days	190.5	188.1	185.5	179.1	182.0
ROIC (%)	(5172%)	(226%)	(248%)	(130%)	(119%)
ROCE (%)	111%	99%	35%	28%	33%
Return On Average Assets	24.2%	25.0%	18.6%	17.5%	19.6%

Key Drivers

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Unbooked Presales (m) (Rmb)	N/A	N/A	N/A	N/A	N/A
Unbooked Presales (area: m sm)	N/A	N/A	N/A	N/A	N/A
Unbooked Presales (units)	N/A	N/A	N/A	N/A	N/A
Unsold attrib. landbank (area: m sm)	N/A	N/A	N/A	N/A	N/A
Gross Margins (%)	34.1%	33.7%	34.9%	35.3%	35.3%
Contracted Sales ASP (per Sm) (Rmb)	N/A	N/A	N/A	N/A	N/A
Residential EBIT Margin (%)	N/A	N/A	N/A	N/A	N/A
Investment rev / total rev (%)	N/A	N/A	N/A	N/A	N/A
Residential rev / total rev (%)	N/A	N/A	N/A	N/A	N/A
Inv. properties rental margin (%)	N/A	N/A	N/A	N/A	N/A
SG&A / Sales Ratio (%)	9.7%	14.6%	13.2%	12.2%	11.7%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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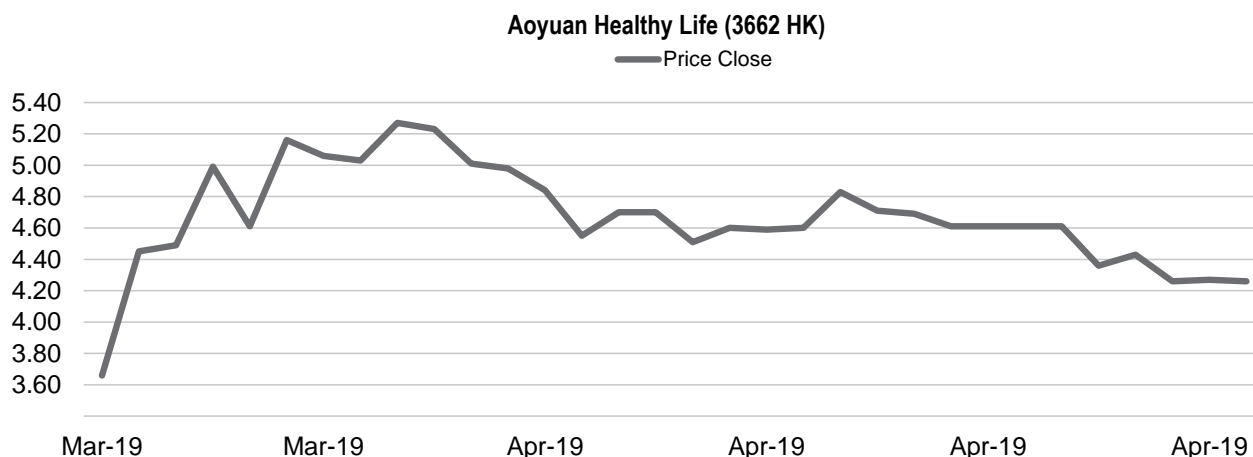
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771 companies under coverage for quarter ended on 08 April 2019		
	Rating Distribution (%)	Investment Banking clients (%)
Add	57.8%	4.0%
Hold	27.0%	2.1%
Reduce	15.2%	0.4%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2018, Anti-Corruption 2018

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, Declared, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Very Good, Certified, **CPF** – Excellent, Certified, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DDD** – Very Good, Declared, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HREIT** - Excellent, Certified, **ICHI** – Excellent, Declared, **HUMAN** – not available, n/a, **III** – Good, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD*** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Declared, **MALEE** – Very Good, Certified, **MC** – Very Good, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Declared, **NETBAY** – Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSTC** – Good, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **RSP** – not available, n/a, **SAMART** - Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Very Good, Certified, **SF** – Good, n/a, **SIRI** – Very Good, Certified, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Declared, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Very Good, Declared, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Very Good, Declared, **UNIQ** – Good, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WORK** – Good, n/a.

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Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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