中國銀河國際
CHINA GALAXY INTERNATIONAL

March 21, 2018

Colour Life Services Group [1778.HK]

The Best is Yet to Come. Reiterate BUY on Strong Earnings Growth.

Driven by solid performance of value-added services, Colour Life (CL) reported strong 2017 results, as EPS grew 71.6% YoY to RMB0.322. This is still better than our expectation if one-off items are excluded (recurring operating profit grew 40% YoY). The internet-oriented business model of CL is starting to reap fruitful rewards, as evidenced by the explosive growth in the number of active users and GMV. We believe the Company can maintain robust >60% YoY growth in value-added services in 2018E, as monetization can be strengthened by its various innovative online businesses. More importantly, CL successfully acquired Wanda Property Management (WPM), which will start to make a contribution in early 2018E. As a high-end property management company with annual revenue of >RMB1.5 billion, WPM will boost the profit of CL significantly starting in 2018E. In a nutshell, we believe the Company has finally found the right path to meet investor expectations, and we expect the re-rating to continue. Even after considering the impact of two recent share placements, we forecast that 2018E EPS will still grow 29% YoY to RMB0.415. Reiterate BUY on an undemanding valuation and strong earnings growth. We raise our TP to HK$9.00 based on a 17.5x 2018E target PER multiple (3-year forward PER average).

Investment Highlights

- **2017 Operating Profit Growth On Track.** While overall revenue and gross profit grew just over 20%, net profit in 2017 grew 70.8% YoY to RMB320.7m, exceeding market expectations. Some items should be noted, such as: (1) a one-off gain of RMB48.3m from the disposal of subsidiaries; (2) interest income of RMB28.7m on loan receivables (included in other income), which is likely to be non-recurring; and (3) a lower effective tax rate of 23.2% (2016: 27.5%). Still, the recurring operating profit is growing (+40% YoY), as we expected, and we see good progress in the Company's core business, especially in value-added services.
- **Internet-Driven Services Welcomed by Users.** Value-added services saw strong 76.5% YoY revenue growth to RMB277m and now account for close to 1/3 of CL's gross profit. Both registered users and the GMV of the Caizhiyun online platform more than doubled in 2017. This was driven by the successful execution of the co-operation model, in which small property management companies use the Caizhiyun platform to offer services. In view of the growing user stickiness and innovative services (such as e-Repair and e-Energy) gaining traction, we expect the segment to maintain solid growth of >60% in 2018E.
- **Wanda Property Management—Earnings Booster in 2018E**. CL completed the acquisition of WPM on 28 Feb 2018, and we expect WPM to make a significant contribution to earnings. We estimate the full-year 2017 revenue of WPM to be close to RMB1.5b and for NPAT to be close to RMB300m. We expect WPM to maintain profitability in 2017, as it has successfully adopted the efficient cost saving initiatives of CL. We therefore expect overall net profit growth of 62.8% YoY to RMB522m. 2018E EPS will grow 29.0% YoY to RMB0.415 as the no. of shares will reach >1.3b after two share placements in early 2018.
- **TP Raised to HK$9.00 Based on 17.5x 2018E PER.** We raise our TP to HK$9.00, based on 17.5x 2018E PER, which is the 3-year average of market consensus forward PER. With solid earnings growth, as well as increased coverage and more sizable peer listing in Hong Kong, we expect the re-rating to continue for some time .

Key financials

Key Financials (RMB m)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Revenue	**1,342**	**1,629**	**3,255**	**4,242**	**5,061**
YoY Change	62.2%	21.4%	99.9%	30.3%	19.3%
Net Profit After Tax	**188**	**321**	**522**	**714**	**875**
YoY Change	11.5%	70.8%	62.8%	36.8%	22.6%
EPS (RMB)	**0.19**	**0.32**	**0.42**	**0.54**	**0.66**
YoY Change	11.4%	71.6%	29.0%	30.7%	22.6%
ROE	**14.9%**	**22.0%**	**30.3%**	**28.0%**	**28.2%**
P/E	29.8x	17.4x	13.5x	10.3x	8.4x
Dividend Yield	1.6%	2.7%	3.7%	4.9%	5.9%

Sources: Company, CGIS Research

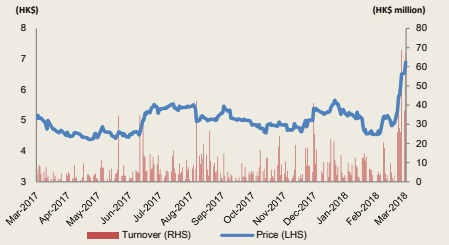
China Property Sector
Property Management

BUY

Close: HK$6.90 (March 20, 2018)

Target Price: HK$9.00 (+30.0%)

Price Performance



Source: Bloomberg

Market Cap	US$1,156m
Shares Outstanding	1,314m
Auditor	Deloitte
Free Float	27.7%
52W range	HK$4.35-6.96
3M average daily T/O	US$1.67m
Major Shareholding	Fantasia (72.09%)

Sources: Company, Bloomberg

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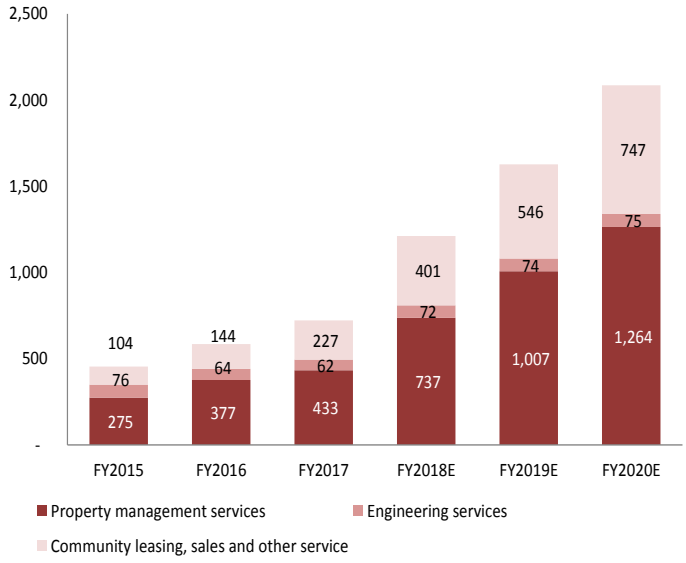
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Figure 1: 2017 Full Year Results Review

Income Statement	FY2016 RMB'000	FY2017 RMB'000	Change YoY	Our Note
Revenues	**1,342,069**	**1,628,698**	21.36%	
Cost of sales and service	(756,280)	(898,020)	18.74%	
Gross Profit	**585,789**	**730,678**	24.73%	
Selling & Distribution Expenses	(13,477)	(26,167)	94.16%	
Administrative Expenses	(297,505)	(277,215)	-6.82%	Driven by lower share-based staff cost
Other Gain/loss	(30,868)	(5,103)	-83.47%	Included RMB48.3m gain on disposal
Expenses Recharged to Residential Communities Under Commission Basis	66,255	67,409	1.74%	
Change in Fair Value of Investment Properties	5,503	2,840	-48.39%	
Share of Results of Associates	796	(279)	N/A	
Share of Results of a Joint Venture	(258)	1,988	N/A	
Other Income	19,562	52,715	169.48%	Included RM28.7m interest income from loan receivables
Finance Costs	(38,004)	(90,236)	137.44%	Due to issuance of ABS
Earnings before Taxes	**297,793**	**456,630**	53.34%	
Provision for Income Tax	(81,782)	(105,981)	29.59%	
Net Profit	**216,011**	**350,649**	62.33%	
Minority Interest	28,226	29,992	6.26%	
Profit/Loss Attributable to Shareholders	**187,785**	**320,657**	70.76%	
EPS (RMB)	**0.1878**	**0.3219**	71.41%	

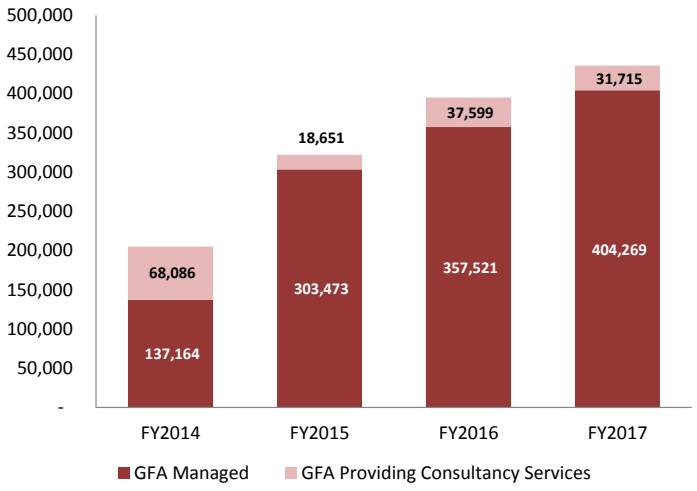
Source: Company, CGIS Research

Figure 2: Revenue Breakdown by Segment (Unit: RMB million)



Source: Company, CGIS Research estimates

Figure 3: GFA Under Management by Year (excluding those co-operating model; unit: '000sqm)



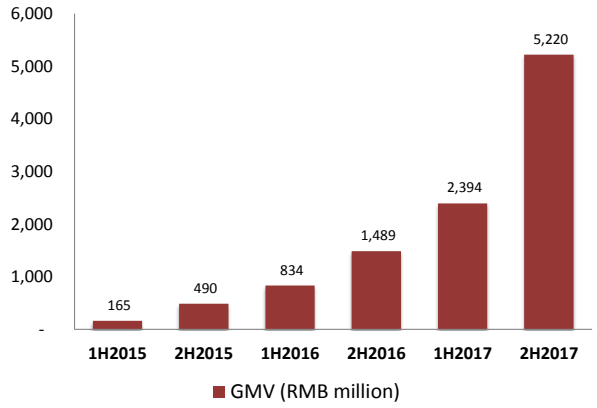
Source: Company, CGIS Research

Figure 4: Breakdown of GFA Under Management (as at 31 December 2017)

	Managed by the Company		Under the Company's consultancy		Cooperated	
	Total Contracted GFA ('000 sq.m)	Number	Total Contracted GFA ('000 sq.m)	Number	Total Contracted GFA ('000 sq.m)	Number
Shenzhen	9,644	130	754	18	–	–
Southern China (excluding Shenzhen)	75,153	508	7,621	23	44,403	264
Eastern China	115,318	744	11,357	31	27,534	244
Southwestern China	83,778	352	2,163	6	82,609	334
Northeastern China	11,358	59	3,758	17	881	330
Northwestern China	14,594	68	275	2	35,313	18
Northern China	17,853	79	2,585	7	1,942	173
Central China	75,544	277	3,202	9	21,548	111
Non-mainland China	40	16	–	–	–	–
Singapore	987	38	–	–	–	–
Total	**404,269**	**2,271**	**31,715**	**113**	**214,230**	**1,474**

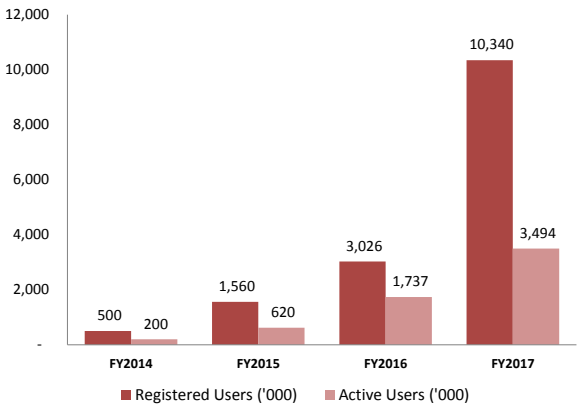
Source: Company, CGIS Research

Figure 5: Accumulated GMV on Caizhiyun APP



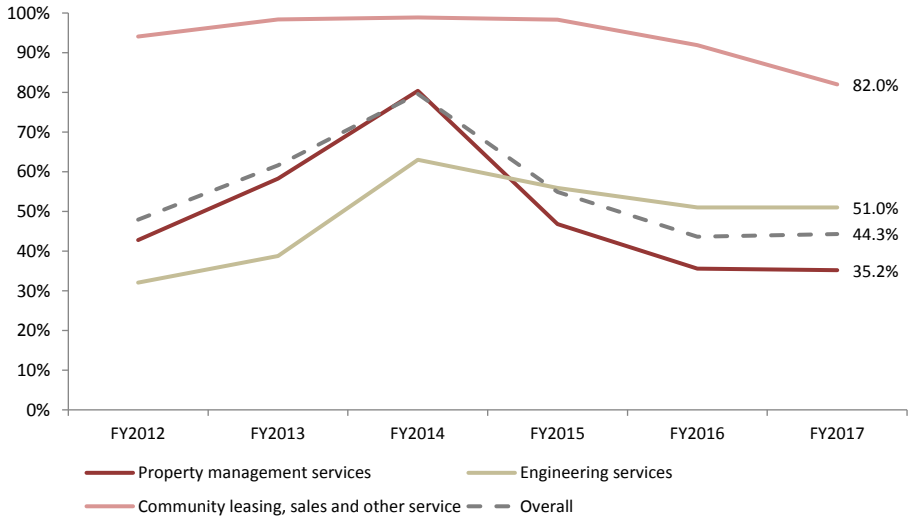
Source: Company, CGIS Research

Figure 6: Number of Users of Caizhiyun APP— Strong Growth under Co-operation Model



Source: Company, CGIS Research

Figure 7: Gross Profit Margin by Segment



Source: Company, CGIS Research

Key Points to Watch

1. Revenue Boosted by Wanda PM

Acquisition of WPM is earnings accretive

The key catalyst for Colour Life (CL) in 2018 is the acquisition of Wanda Property Management (WPM). CL acquired WPM for a consideration of RMB2,013m. We estimate this is equivalent to 7.14x 2017 PER and is earnings accretive.

Based on the official announcement, 10-month revenue for WPM was RMB1,236m, while NPAT was RMB235m. The improvement in NPAT was mainly due to cost control initiatives introduced by CL; the cost savings were more visible after close to a one-year adaptation by WPM. On a pro-forma basis, we estimate the full year 2017 revenue of WPM is close to RMB1.5bn, and NPAT close to RMB300m.

As the acquisition was completed on 28 Feb 2018, we expect WPM to start to contribute to CL from March 2018. Currently, we estimate WPM will continue to record double-digit growth in overall revenue, so the pro-forma revenue contribution should be around RMB1.4bn.

Revenue growth boosted by WPM will be higher for accounting reasons

Note: Since the accounting treatment for WPM (most revenue booked on a lump-sum basis) is different from CL's (~13% of revenue booked on a commission basis, which has ~100% GPM but lower absolute revenue), the overall revenue boost in 2018E (our estimate: 100% YoY) will be much higher than NPAT growth (63% YoY) and EPS growth (30% YoY due to share placement).

Figure 8: Past Financials of Wangxiangmei (Wanda Property Management) - Solid Earnings Improvement in 10M2017 Thanks to Cost Savings

RMB'000	FY2014	FY2015	FY2016	10M 2017
Revenue Breakdown:				
Property management fees charged on a lump sum basis	*857,927*	*989,667*	*1,139,253*	*1,029,081*
Parking management service fees	*37,047*	*58,708*	*39,741*	*62,661*
Others	*79,943*	*149,768*	*145,719*	*144,244*
Total Revenue	**974,917**	**1,198,143**	**1,324,713**	**1,235,986**
Cost of services	(764,927)	(944,289)	(1,040,742)	(823,762)
Gross profit	**209,990**	**253,854**	**283,971**	**412,224**
Other income	5,534	11,345	10,074	1,812
Other gains and losses	(2,858)	(5,782)	855	(8,592)
Administrative expenses	(123,385)	(184,571)	(243,044)	(92,836)
Finance costs	-	-	-	(1,829)
Profit before taxation	**89,281**	**74,846**	**51,856**	**310,779**
Income tax expense	(23,200)	(28,615)	(30,125)	(75,750)
Net profit after tax	**66,081**	**46,231**	**21,731**	**235,029**

Source: Company, CGIS Research

Key Points to Watch (continued)

2. Further M&A Still Possible

While WPM has been the largest acquisition by CL so far, we believe there is still the room for further M&A. As the online platform of CL has become more mature, we believe its parent, Fantasia [1777.HK], may consider options to inject further assets into CL. Fantasia has explored other asset-light businesses in the past, and these businesses may create synergy with CL.

Notably, Fantasia previously spun off a property management business on the NEEQ in 2015. The spin-off, named Home E&E (深圳市美易家商務服務集團股份有限公司), specializes in non-residential properties, such as office buildings. However, as the liquidity of the NEEQ is less favourable than expected, Home E&E was delisted in 2017. Currently, CL holds a 4.2% stake in Home E&E. In the analysts' meeting, management hinted that the M&A with Home E&E could not be ruled out. The rationale is that as the scale of CL continues to grow, and Wanda Property Management continues to provide a greater contribution from non-residential properties to the Company, CL may become mature enough to merge with Home E&E at some point.

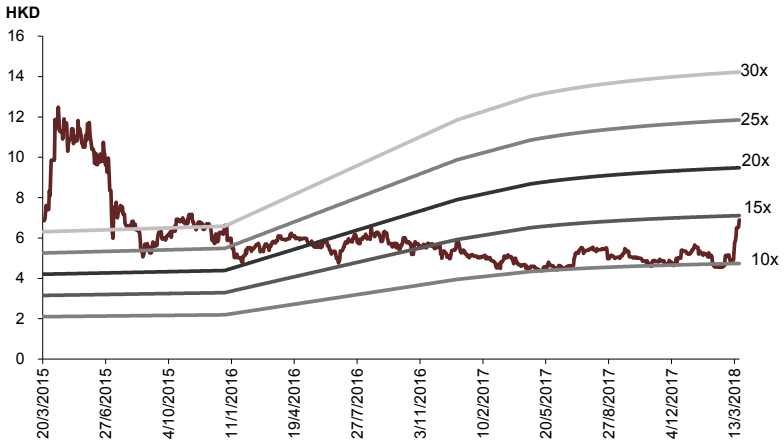
While large scale M&A is possible, we believe the timing is more likely to be 2020E

However, we expect this may be more possible in 2020E for several reasons: (1) it will take time for WPM to integrate with CL and be appreciated by the market; (2) cash flow will be more favourable in 2020E, according to our projections; and (3) the valuation of CL may be more favourable in the future.

Valuation

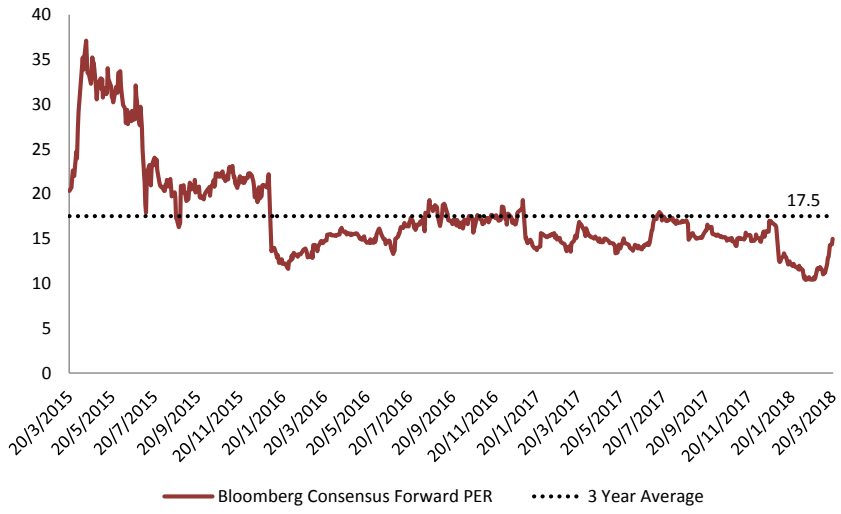
With solid earnings growth, as well as increased coverage and a more sizable peer listing in Hong Kong, we expect the re-rating of CL to continue for some time. Currently, the Company is trading at 13.5x 2018E PER, which is still below its historical range and that of its peers. Our latest TP of HK$9.00 is based on 17.5x 2018E PER, which is the 3-year average of market consensus forward PER.

Figure 9: PER Band of Colour Life



Source: Bloomberg, CGIS Research

Figure 10: Market Consensus Forward PER—3 Year



Source: Bloomberg, CGIS Research

Key financials

Income Statement (RMB m)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Revenue	**1,342**	**1,629**	**3,255**	**4,242**	**5,061**
COGS	(756)	(898)	(2,044)	(2,700)	(3,184)
Gross Profit	**586**	**731**	**1,211**	**1,541**	**1,876**
SG&A	(311)	(303)	(372)	(472)	(603)
Other Operating Items	41	67	12	(1)	(5)
Operating Profit	**316**	**494**	**850**	**1,068**	**1,268**
Finance Costs	(38)	(90)	(140)	(92)	(72)
Other Income	20	53	40	51	63
Net Profit Before Tax	298	457	751	1,027	1,259
Income Tax	(82)	(106)	(180)	(246)	(302)
Net Profit After Tax	**188**	**321**	**522**	**714**	**875**
Minority Interest (After Tax)	28	30	49	67	82
EPS (RMB)	**0.19**	**0.32**	**0.42**	**0.54**	**0.66**
DPS (RMB)	0.09	0.15	0.21	0.27	0.33
EBITDA	313	468	885	1122	1335
EBIT	275	427	839	1069	1273
Revenue Growth	62.2%	21.4%	99.9%	30.3%	19.3%
Operating Profit Growth	26.8%	56.3%	72.1%	25.5%	18.8%
Net Profit Growth	11.5%	70.8%	62.8%	36.8%	22.6%
EPS Growth	11.4%	71.6%	29.0%	30.7%	22.6%
Gross Margin	43.6%	44.9%	37.2%	36.3%	37.1%
Operating Margin	23.6%	30.3%	26.1%	25.2%	25.1%
Net Profit Margin	14.0%	19.7%	16.0%	16.8%	17.3%

Balance Sheet (RMB m)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Bank Balances and Cash	755	857	659	744	1,389
Restricted Bank Deposits	493	377	377	377	377
Trade Receivables	271	382	674	878	1,048
Inventories	2	7	3	4	4
Other Current Assets	932	1,269	1,802	2,084	2,328
Total Current Assets	**2,453**	**2,892**	**3,515**	**4,087**	**5,147**
PP&E	181	169	208	226	245
Investment Properties	93	71	71	71	71
Goodwill & Intangible Assets	960	1,158	2,243	2,314	2,376
Other Non Current Assets	337	371	397	421	440
Total Non Current Assets	**1,570**	**1,769**	**2,919**	**3,031**	**3,132**
Total Assets	**4,023**	**4,661**	**6,434**	**7,118**	**8,278**
Trade Payables	114	221	322	425	502
Short-term Borrowings	214	513	849	497	371
Other Current Liabilities	954	1,025	1,722	2,219	2,597
Total Current Liabilities	**1,282**	**1,760**	**2,893**	**3,141**	**3,469**
Long-term Borrowings	1,124	992	697	471	554
Other Non-current Liabilities	84	82	138	188	230
Total Non-current Liabilities	**1,208**	**1,074**	**835**	**659**	**784**
Total Liabilities	**2,490**	**2,834**	**3,728**	**3,799**	**4,253**
Total Common Equity	1,459	1,721	2,551	3,097	3,721
Minority Interest	74	106	155	222	304
Total Equity	**1,532**	**1,827**	**2,706**	**3,319**	**4,025**
Total Equity & Liabilities	**4,023**	**4,661**	**6,434**	**7,118**	**8,278**

Cash Flow Statement (RMB m)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Net Profit After Tax	188	321	522	714	875
D&A Add-back	51	40	47	53	62
Share-based Payment Expense	79	43	43	4	4
Net Change in Working Capital	(93)	(111)	6	140	62
Other Operating Items	97	117	226	202	194
CFO	**322**	**410**	**844**	**1,113**	**1,197**
Purchase of PP&E	(65)	(28)	(86)	(71)	(81)
Acquisitions of Subsidiaries, net	(221)	(59)	(1,085)	(71)	(62)
Other Investing Items	(329)	53	40	51	63
CFI	**(615)**	**(35)**	**(1,130)**	**(90)**	**(80)**
Dividends Paid	(85)	(89)	(169)	(267)	(357)
Net Change in Debt	728	12	41	(579)	(43)
Other Financing Items	(15)	(90)	216	(92)	(72)
CFF	**628**	**(167)**	**88**	**(938)**	**(472)**
Total Cash Flow	**335**	**208**	**(198)**	**85**	**645**
Free Cash Flow	(121)	162	(489)	853	936

Ratios	FY2016	FY2017E	FY2018E	FY2019E	FY2020E
ROE	14.9%	22.0%	30.3%	28.0%	28.2%
ROA	6.9%	8.0%	11.2%	11.1%	12.3%
Net Debt / Equity	34.3%	26.5%	27.3%	1.0%	Net Cash
EBITDA Interest Coverage	8x	5x	6x	12x	18x
Rec. Turnover Days	61	73	76	76	76
Other Rec. Turnover Days	71	86	90	90	90
Payables Turnover Days	47	68	57	57	57
Other Payables Turnover Days	246	248	230	230	230
Current Ratio	1.91x	1.64x	1.21x	1.30x	1.48x
Quick Ratio	1.91x	1.64x	1.21x	1.30x	1.48x
Valuation	**FY2016**	**FY2017E**	**FY2018E**	**FY2019E**	**FY2020E**
P/E	29.8x	17.4x	13.5x	10.3x	8.4x
P/B	3.8x	3.2x	2.8x	2.4x	2.0x
EV / EBITDA	19.7x	16.3x	11.0x	8.5x	.0x
Dividend Yield	1.6%	2.7%	3.7%	4.9%	5.9%

Revenue (RMB m)	FY2016	FY2017	FY2018E	FY2019E	FY2020E
Property management services	1,059	1,231	2,624	3,726	4,722
Engineering services	126	121	142	145	148
Community leasing, sales and other service	157	277	489	683	957
Total	**1,342**	**1,629**	**3,255**	**4,553**	**5,827**
GP (RMB m)	**FY2016**	**FY2017**	**FY2018E**	**FY2019E**	**FY2020E**
Property management services	377	433	737	1,007	1,264
Engineering services	64	62	72	74	75
Community leasing, sales and other service	144	227	401	546	747
Total	**586**	**722**	**1,211**	**1,627**	**2,086**
Segement Profit (RMB m)	**FY2016**	**FY2017**	**FY2018E**	**FY2019E**	**FY2020E**
Property management services	234	239	510	724	918
Engineering services	47	51	60	61	63
Community leasing, sales and other service	122	218	385	537	753
Total	**403**	**508**	**955**	**1,323**	**1,734**

Sources: Company, Capital IQ, CGIS Research estimates

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BUY	:	share price will increase by >20% within 12 months in absolute terms
SELL	:	share price will decrease by >20% within 12 months in absolute terms
HOLD	:	no clear catalyst, and downgraded from BUY pending clearer signal to reinstate BUY or further downgrade to outright SELL

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