

Rating Announcement

4 February 2019

Colour Life Services Group Co., Limited

Hong Kong

Category:	Corporate Rating
Rating type:	Solicited Rating
Industry:	Property Management
Long-term Credit Rating:	BB _g +
Rating Outlook:	Stable

Primary Analyst :
Vincent Tong vincent_tong@ccxap.com

Analyst :
Jacky Lau jacky_lau@ccxap.com

Director of Credit Ratings:
Guo Zhang guo_zhang@ccxap.com

Tel.: +852-28607111

China Chengxin (Asia Pacific) Credit Ratings affirms the BB_g+
Life Services Group Co., Limited, with stable outlook

Hong Kong, 4 February 2019 -- China Chengxin (Asia Pacific) Credit Ratings announces that the BB_g+

rating of Colour Life Services Group Co., Limited (“Colour Life” or the “Company”) is unaffected by its 2018H1 results, with stable outlook. Colour Life’s rating reflects its promising operating performance with the acquisition of Wanxiangmei Property Management Co., Ltd. (“Wanxiangmei”), although its gross margin faces pressure.

Corporate Profile

Colour Life was founded in 2002 and was listed on the Stock Exchange of Hong Kong in 2014 (Stock Code: 1778.HK). The Company is one of the leading property management service providers in mainland China, with servicing areas spanning over 249 cities. Its geographic coverage also extends overseas to Singapore. As of 30 June 2018, approximately 55.5% of the Company’s shares were directly held by Fantasia Holdings Group Co., Limited (“Fantasia”), a real estate company listed on the HKEX (Stock Code: 1777.HK). The ultimate controlling shareholder of Colour Life is the same as that of Fantasia, Ms. Zeng Jie Baby.

Rating Rationale

Benefitting from the consolidation of Wanxiangmei, the Company extends its platform coverage to high-end properties. As of 30 June 2018, the Company’s total contracted GFA (Gross Floor Area) under management contracts and consultancy service arrangements was 484.0 million sqm and the

number of residential communities was 2,555, increasing by 15.2% and 9.4% YoY, respectively. Among them, 2,509 communities with a GFA of 477.0 million sqm were directly managed by the Company. The other 46 communities with a GFA of 7.0 million sqm were managed through consultancy service agreements of the Company.

In particular, Colour Life's total revenue-generating GFA increased from 293.6 million sqm at end-2017 to 333.6 million sqm in mid-2018, of which the acquired Wanxiangmei contributed 20.0 million sqm and the newly-engaged managed area was 20.0 million sqm. However, the managed GFA from Wanxiangmei is mainly charged under the lump-sum method, which offers lower gross margin than the 100% margin from a commission-based charging scheme. The percentage of revenue-generating GFA charged under the lump-sum basis rose from 18.8% at end-2017 to 33.5% in mid-2018, weighing on the Company's overall margin. GFA under commission basis registered 64.4% share of total revenue-bearing GFA in mid-2018, decreasing from that of 75.2% at end-2017.

On the other hand, the Company recorded GFA of 497.4 million sqm of cooperation area in 2018H1, increasing by 33.2 million sqm from end-2017. Therefore, the Company's total platform service area rose 9.0% from 900.2 million sqm at end-2017 to 981.4 million sqm in mid-2018, demonstrating strong market expansion capability.

The Company also demonstrates a diversifying business profile through developing community leasing and sales as well as other value-added services which may help enhance its business strength in the future. As of 30 June 2018, registered users of its online platform Caizhiyun APP increased to 14,510,000 and the active users amounted to 3,798,000, increasing by 252.1% and 56.0% YoY, respectively. Moreover, accumulated gross merchandise volume (GMV) of Caizhiyun reached RMB 4.4 billion in 2018H1, increasing by 82.1% YoY, of which "Colour Wealth Life" value-added plan recorded GMV of RMB 1.5 billion, while the newly-launched platform "Colour Benefit Life" also started to deliver encouraging results. After three months of launch, accumulated GMV of "Colour Benefit Life" reached RMB 28.6 million. For e-lift, over 128,000 units of lifts were in operation and more than 78.1% of them were from communities not managed by the Company. With expanding platform service areas, we expect revenues from community leasing and sales as well as other value-added services will continue to grow.

In 2018H1, total revenue of Colour Life rose by 135.3% YoY to RMB 1.8 billion, of which property management services revenue grew 154.6% YoY to RMB 1.5 billion, followed by value-added services revenue of RMB 212.3 million with 91.7% YoY growth, engineering services revenue of RMB 77.4 million with 29.9% YoY growth.

On 20 July 2018, the State Council released its "Reform Plan on the National and Local Taxation Collection and Management System", which came into effect on 1 January 2019. Given Colour Life's labour-intensive business nature, the plan may aggravate its labour cost owing to the anticipated stringent collection of social security fees. With enlarging contracted GFA of the Company, we estimate that its revenue will continue to grow, while the rising pressure on its labour cost may curtail some profits of the Company.

The Company had moderate but heightened debt leverage. The debt burden of Colour Life increased dramatically from RMB 2,849.5 million at end-2017 to RMB 4,171.9 million in mid-2018. As for the maturity profile, short-term debt represented 43.1% of total debt as of 30 June 2018, higher than that of

25.7% as of 31 December 2017. The shortened debt maturity profile will exert certain pressure on its credit profile. As of 30 June 2018, the total capitalization ratio was 58.7% and net gearing ratio was 27.4%, which were still in a reasonable range. The debt to EBITDA ratio was 4.8x and EBITDA interest coverage ratio was 4.4x in LTM 2018H1.

Colour Life's liquidity remained adequate, although it was weakened by the increasing size of short-term debt. The Company reported cash reserves of RMB 3,367.2 million in 2018H1, which covered 1.9x of its short-term debt. It has maintained a cash/short-term debt ratio of above 2.0x in past three years. Given Colour Life will escalate platform service area as well as diversifying business portfolio which may take debt burden, we will continue to monitor Colour Life's credit metrics.

Appendix. CCXAP's Credit Rating Symbols and their Meaning

China Chengxin (Asia Pacific) Credit Ratings Company Limited uses simple, consistent, and comparable rating symbols expressed in letters to represent the credit worthiness of rated entities and rated debt issues.

A. Long-Term Credit Ratings

A long-term credit rating refers to a rating for a period of more than 12 months.

Rating Symbol	Definition
AAAg	Capacity to meet commitments on short-term and long-term debts is extremely strong. Business is operated in a virtuous circle. The foreseeable uncertainty on business operations is minimal.
AAg+ AAg AAg-	Capacity to meet short-term and long-term financial commitments is very strong. Business is operated in a virtuous circle. Foreseeable uncertainty in business operations is relatively low.
Ag+ Ag Ag-	Capacity to meet short-term and long-term commitments is strong. Business is operated in a virtuous circle. Business operation and development may be affected by internal uncertain factors, which may create fluctuations in profitability and solvency of the issuer.
BBBg+ BBBg BBBg-	Capacity to meet financial commitment is considered adequate and capacity to meet short-term and long-term commitments is satisfactory. Business is operated in a virtuous circle. Business is affected by internal and external uncertainties. Profitability and solvency may experience significant fluctuation. Principal and interest may not be sufficiently protected by the terms of agreement.
BBg+ BBg BBg-	Capacity to meet short-term and long-term financial commitment is relatively weak. Financial commitment towards short-term and long-term debts is below average. Status of business operations and development is not good. Solvency is unstable and subject to sustainable risk.
Bg+ Bg Bg-	Financial commitment towards short-term and long-term debts is bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Solvency is uncertain and subject to high credit risk.
CCcg	Financial commitment towards short-term and long-term debts is very bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Poor solvency with very high credit risk.
CCg	Financial commitment towards short-term and long-term debts is extremely bad. Business operations are poor. There are very limited positive internal and external factors to support business operation and development. Extremely high credit risk is found.
Cg	Financial commitment towards short-term and long-term debts is insolvent. Business falls into a vicious circle. Very limited positive internal and external factors are found to support business operations and development in positive cycle. Extremely high credit risk is seen and is near default.
Dg	Unable to meet financial commitments. Default is confirmed.

B. Long-term Credit Rating Outlook

A rating outlook is the medium- and long-term trend of the credit rating of a rated entity. In formulating a rating outlook, CCXAP considers the potential change in economic and commercial factors from a medium- and long-term perspective for a period of 12 to 18 months.

Positive	Indicates a rating with an ascending trend
Negative	Indicates a rating with a descending trend
Stable	Indicates the rating is likely to be stable

Copyright ©2019.China Chengxin (Asia Pacific) Credit Ratings Company Limited. All rights reserved.

Disclaimer

Credit ratings assigned by China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) are based on CCXAP’s rating principles of independence, fairness and objectivity. A credit rating reveals and ranks specific risks, but it does not cover all risks embedded in the rated entity or the rated debt issue.

Credit ratings are not recommendations for investors to buy, sell or hold debt securities, nor measurements of market value of the rated entities or the rated debt issues. While CCXAP has obtained information from sources it believes to be reliable, CCXAP does not perform an audit and undertakes no duty of due diligence or independent verification of information it receives from the rated entity.

CCXAP’s public ratings are available at www.ccxap.com (Rating Results) and may be distributed through media and other means. The methodology used in this rating is Rating Methodology for Business and Customer Service Companies Industry dated June 2017, available at www.ccxap.com (Rating Process -> Rating Methodology).

All information published in this document belongs to CCXAP and is subject to change without prior notice by CCXAP. CCXAP considers the information contained in this document reliable. However, all information is provided on an "as is" and "as available" basis and CCXAP does not guarantee the accuracy, adequacy, completeness or timeliness of any information included in this document. None of the information may be used, including without limitation reproducing, amending, sending, distributing, transferring, lending, translating, or adapting the information, for subsequent use without CCXAP’s prior written permission.

CCXAP is not liable for any in whole or part caused by, resulting from or relating to any error (neglect or otherwise) or other circumstance or contingency within or outside the control of CCXAP's or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, interpretation, analysis, editing, transcription, publication, communication or delivery of any such information, or any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation lost profits), even if CCXAP, or representatives thereof, are advised of the possibility of such damage, losses or expenses.

China Chengxin (Asia Pacific) Credit Ratings Company Limited

Address: Suites 805-808, Jardine House, 1 Connaught Place, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656