

Central China Real Estate Limited

Reaping in the Harvest and More is to Come

We reiterate our Buy rating on CCRE, one of our top picks of the sector. 2019 results beat consensus estimate by 26%. The stock is now offering an 11.8% div yield, backed by strong positive cash flows which saw net debt to equity decline to 6%. A solid 30% net profit CAGR outlook is highly visible with unrecognized sales locked-in on balance sheet.

11.8% dividend yield, highly visible 30% 2019-2021E earnings CAGR

Central China Real Estate (CCRE) is set for another two years of highly visible 30% net profit CAGR during 2020-2021E, in our view, underpinned by RMB53bn of contract liabilities (142% of 2020E revenues) locked-in on end-2019 balance sheet. Contracted sales is targeted to grow by another 11% in 2020 to RMB80bn. At 4.0x P/E, we believe market is yet to reflect the fair value of the company and the stock is now offering a 11.8% 2019 div yield. This dividend is underpinned by solid cash flows as reflected by its 6% net debt to equity, in our view. We reiterate our Buy rating with a Target Price of HK\$6.0/sh, offering 50% upside to current share price.

Strong 2019 results on higher revenues and better margins

CCRE reported a strong set of 2019 results, with core net profit rising 150% YoY to RMB1.96bn, beating consensus estimate by 26%, mainly due to higher than expected revenue and GP Margins. 2019 revenues were 12% higher than our estimate at RMB30.8bn, while GP Margins were also better than expected at 26%, above our estimate of 24%. Final DPS of HK\$0.31/sh was declared, bringing 2019 Full Year DPS to HK\$0.466/sh (up 118% YoY)

Net Debt to Equity lowered to 6%, reflects strong positive cash flows

We believe the decline in financial leverage, while maintaining growth, reflects the positive cash flow strength that the developer is generating from its underlying business. CCRE's Net Debt to Equity (incl. Restricted Cash) has been lowered further to 6% (1H19: 18%), one of the lowest in the industry. Even if we exclude restricted cash, the Net Debt to Equity is still at comfortable levels of 64% (1H19: 61%). Total Assets to Equity remained stable at 11.4x (1H19: 11.2x), as the developer continues to fund its balance sheet mostly with non-interest bearing liabilities.

March contracted sales almost doubled the Jan-Feb aggregate amount

As per third-party data from CRIC, Central China's 1Q20 contracted sales reached ~RMB11bn, implying a contracted sales of RMB7.2bn achieved in March across both Heavy-Asset and Light Asset business combined. This is almost double the aggregate amount of the first two months total contracted sales. We believe these are positive signs that the developer is back on track to achieve its RMB80bn Heavy Assets contracted sales target.

Reiterate our Buy Rating with a TP of HK\$6.0/sh

We reiterate our Buy rating, with the stock currently trading at attractive valuations of 4.0x 2020E P/E, slightly below the industry average of 4.2x 2020E P/E. Our target price of HK\$6.0/sh is based on a 6.0x 2020E P/E. Key downside risks include (1) Lack of supportive policy easing measures in Henan Province causing a weaker than expected contracted sales; (2) Construction delays causing a delay in revenue recognition.

Stock code: 0832.HK

Rating: Buy

Price target (HK\$)	6.00
Current price (HK\$, 1 Apr 2020)	4.00
Upside/downside %	50%
Market cap (HK\$ m)	11,142
Market cap (US\$ m)	1,438
Avg daily turnover (US\$ m)	2.25

Source: Bloomberg, AMTD Equity Research

Key forecasts

(RMB m)	2018	2019	2020e	2021e
Revenue	14,783	30,767	37,131	44,557
yoy %	6.5%	108.1%	20.7%	20.0%
Core Net Profit	784	1,957	2,443	3,294
yoy %	21.2%	149.7%	24.8%	34.8%
Gross margin	34.4%	26.0%	24.0%	24.0%
Net gearing	20.2%	5.6%	31.3%	51.2%
EPS	0.30	0.72	0.89	1.21
DPS	0.19	0.43	0.38	0.44
BPS	3.39	3.56	3.97	4.73

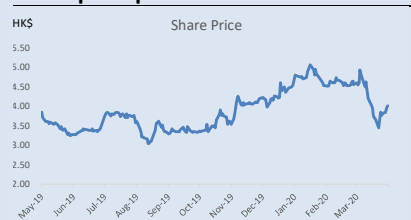
Source: Company data, AMTD Equity Research

Valuation

	2018	2019	2020e	2021e
P/E	12.0	5.0	4.0	3.0
P/BV	1.1	1.0	0.9	0.8
Div. yield	5.3%	11.8%	10.6%	12.2%
ROE	8.9%	20.1%	22.3%	25.2%
ROA	0.8%	1.4%	1.5%	1.7%

Source: Bloomberg, AMTD Equity Research

Share price performance



Source: Bloomberg

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Figure 1: Central China Real Estate 2019 Financial Analysis

FY19 Results (RMB '000)	FY19A	FY18A	YoY	FY19E	Diff
Sales of properties	29,161,164	13,629,185	114%	25,985,004	12%
Project management service fee income	1,022,918	675,266	51%	810,319	26%
Hotel operations	322,598	284,628	13%	341,554	-6%
Others	96,954	47,479	104%	56,975	70%
Rental income	163,064	146,922	11%	176,306	-8%
Total Revenue	30,766,698	14,783,480	108%	27,370,158	12%
Cost of sales	(22,761,356)	(9,692,377)	135%	(20,801,320)	9%
Gross profit	8,005,342	5,091,103	57%	6,568,838	22%
Other revenue	262,766	234,854	12%	104,354	152%
Other net income	799,526	64,192	1146%	28,523	2703%
Selling and marketing expenses	(1,901,334)	(1,188,393)	60%	(1,402,304)	36%
General and administrative expenses	(1,721,783)	(1,552,404)	11%	(1,831,837)	-6%
Impairment losses on trade and other receivables, including contract assets	(169,642)	(54,623)	211%	(24,271)	599%
Share of losses of associates	(33,918)	(17,905)	89%	33,149	-202%
Share of profits less losses of joint ventures	177,868	15,638	1037%	28,952	514%
Net Finance costs	(395,249)	(226,152)	75%	(421,628)	-6%
Profit before change in fair value of investment properties and income tax	5,023,576	2,366,310	112%	3,083,777	63%
Net valuation gain on investment properties	92,773	605,673	-85%	-	N/A
Profit before tax	5,116,349	2,971,983	72%	3,083,777	66%
Income tax expense	(2,700,827)	(1,556,860)	73%	(1,177,990)	129%
Net profit	2,415,522	1,415,123	71%	1,905,788	27%
Owners of the Company	2,015,064	1,154,262	75%	1,554,479	30%
Non-controlling interests	400,458	260,861	54%	351,309	14%
Core Net Profit	1,957,020	783,744	150%	1,554,479	26%
Key Ratios					
GP Margins	26.0%	34.4%		24.0%	
Core Net Margins	6.4%	5.3%		5.7%	
	FY19A	1HFY19		FY19E	
Net debt to total equity ratio (with restricted cash)	6%	18%		31%	
Net debt to total equity ratio (without restricted cash)	64%	61%		60%	
Total Assets to Total Equity	1142%	1116%		1158%	

Source: Company data, AMTD Equity Research

IMPORTANT DISCLOSURES

AMTD Investment Ratings

Stock Rating

Buy	Stock with potential return of over 20% over the next 12 months
Hold	Stock with potential return of -20% to +20% over the next 12 months
Sell	Stock with potential loss of over 20% over the next 12 months

Analyst Certification

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