

Central China Real Estate Limited

Greentown Listing Paves Way to Unlock Asset-Light Value

We believe the recent listing of Greentown Management (9979.HK, NR) on the HKEX offers investors insight into the deep value hidden in CCRE's asset light business. If we mark-to-market CCRE's asset light business with Greentown's IPO valuation, this implies that CCRE's heavy asset business is trading at a deep 3.1x 2020E P/E. Reiterate Buy.

Newly listed Greentown Management offers Valuation Benchmark

Four years since CCRE announced its asset light business, revenues from this segment has grown at a 96.3% CAGR during 2017-2019 and is becoming a shining beacon within the group. We believe this business segment is still undervalued by capital markets, and the recent listing of Greentown Management (9979.HK, NR) on HK Stock Exchange will change market's perception and hence should drive a potential re-rating of CCRE. Greentown Management was listed at 15.6x 2019 Trailing P/E, a significant premium to CCRE's current blended valuation of 4.9x 2019 Trailing P/E.

Greentown Management at 15.6x 2019 P/E vs CCRE 4.9x 2019 P/E

Greentown Management has a 2019 revenue of RMB2.0bn, while CCRE's asset light business generated RMB1bn of revenues in 2019. 2017-2019 revenue CAGR of Greentown Management was at 40.1%, compared to CCRE Asset Light's 96.3%. If we assume that CCRE's net margins are the same as Greentown Management, CCRE's asset light business would have contributed around RMB174mn to its net profit in 2019. If one day CCRE decides to spin-off the asset light business at 15.6x 2019 P/E valuation we estimate it will fetch a RMB2.7bn valuation, and implying it will be adding 19% to CCRE's current market cap (see Figure 1).

Asset Light Revenues achieved 96.3% CAGR during 2017-19

CCRE's project management and service fee revenues has almost quadrupled to reach RMB1bn in 2019 and we have factored in another 20% growth for 2020E in our model. We estimate this business segment to have a high GP Margins of 44%. Under this Asset-light business, CCRE charges a branding fee of RMB200-300/sqm for managing the development of residential and commercial projects for third-party landlords as a basic fee. There is also a performance based component of 10% for achieving a ASP premium above a pre-set ASP target.

CCRE 1H20 Heavy Assets Contracted Sales up 8.5% YoY

Meanwhile, Central China Real Estate announced that their Heavy Asset Contracted Sales reached RMB8bn in June 2020. This brings the 1H20 Heavy Assets contracted sales total to RMB30bn, rising 8.5% YoY, and achieving a half-year run-rate of 37.5% (2019: 39%). We thus believe the developer is on track to meet its full year Heavy Assets sales target of RMB80bn.

A laggard in the sector's recent rally, still trading at 3.8x 2020E P/E

Central China Real Estate's shares only rose by 8% since 1 July 2020, a laggard compared to the 11% surge in the sector's average. As such, the developer is still trading at an attractive 3.8x 2020E P/E (Industry: 5.5x) and offers a ~12% 2020E dividend yield based on current valuations, in our view.

Stock code: 0832.HK

Rating: Buy

Price target (HK\$)	6.10
Current price (HK\$, 8th July 2020)	3.90
Upside/downside %	56%
Market cap (HK\$ m)	10,835
Market cap (US\$ m)	1,398
Avg daily turnover (US\$ m)	1.39

Source: Bloomberg, AMTD Research

Key forecasts

(RMBm)	2019	2020e	2021e	2022e
Revenue	30,767	37,020	45,349	47,963
yoy %	108.1%	20.3%	22.5%	5.8%
Gross Profit	8,005	9,632	11,800	12,480
yoy %	57.2%	20.3%	22.5%	5.8%
Core Net Profit	1,957	2,498	3,508	3,731
yoy %	149.7%	27.6%	40.4%	6.4%
Gross margin	26.0%	26.0%	26.0%	26.0%
Net gearing	5.6%	5.1%	20.1%	18.0%
EPS	0.72	0.91	1.28	1.37
DPS	0.43	0.44	0.54	0.57
BPS	3.56	4.03	4.78	5.57

Source: Company data, AMTD Research

Valuation

	2019	2020e	2021e	2022e
P/E	4.9	3.8	2.7	2.6
P/BV	1.0	0.9	0.7	0.6
Div. yield	12.1%	12.5%	15.3%	16.3%
ROE	20.1%	22.7%	26.9%	24.5%
ROA	1.4%	1.5%	1.9%	1.8%

Source: Bloomberg, AMTD Research

Share price performance



Source: Bloomberg

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CCRE Asset Light Business Valuation

A 19% potential value accretion to current Market Cap

The recent IPO listing of Greentown Management (9979.HK) implies that market values such as asset-light project management business at 15.6x 2019 trailing P/E.

If the Central China's Light Asset Business is marked-to-market based on Greentown Management's valuation of 15.6x 2019 trailing P/E, we estimate that it would bring the valuation to RMB2.72bn. This implies a RMB1.87bn of value accretion, or 19% of current market cap.

... and implies that market is only valuing CCRE's Heavy Assets at 3.1x FY20E P/E

If we work backwards based on this RMB2.72bn valuation of Asset Light Business, and take this out from the current market cap of CCRE, this would imply that investors are only valuing CCRE's Heavy Asset Business at a 3.1x FY20E P/E (Figure 2).

Figure 1: CCRE Light Asset Value Accretion based on 15.6x 2019 P/E of Greentown Mgmt.

	FY19 Revenue (RMBm)	FY19 Attri. Net Profit (RMBm)	19 P/E	Valuation (RMBm)	CCRE Market Cap (RMBm)*	Value Accretion to CCRE (RMBm)
Light Asset Implied	1,023	174	15.6x	2,722		
Light Asset Current	1,023	174	4.9x	855		
Value Accretion				1,868	9,752	19%

Source: Company data, AMTD Research Estimates

Light Asset Attri. Net Profit assumes a same net margin as Greentown Management

Note:* As of 8th July

Figure 2: If light assets are revalued based on 15.6x FY19 P/E

(RMBm)	
Light Asset	
Light Asset FY19 Revenue	1,023
Light Asset FY19 Attri. Net Profit	174
Light Asset 19 P/E	15.6x
Light Asset Valuation	2,722
Heavy Asset	
CCRE Market Cap(as of 8 July)	9,752
Implied Heavy Asset Valuation	7,030
Heavy Asset Attri. Net Profit FY20E	2,289
Implied Heavy Asset FY20E P/E	3.1x

Source: Company data, AMTD Research Estimates

Valuation

Figure 3: Peers Valuation comparison

Date	8/7/2020	Share Price	Mkt cap	P/E			P/B			Div. yield
Ticker	Name(EN)	(HK\$)	(USD mn)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19
China Property Developers										
2202 HK	Vanke	28.35	49,077	7.5x	6.5x	5.7x	1.5x	1.3x	1.1x	4.2%
3333 HK	Evergrande	24.30	40,934	16.8x	8.8x	7.7x	2.0x	1.7x	1.5x	3.0%
688 HK	COLI	25.55	36,119	6.1x	6.4x	5.5x	0.9x	0.8x	0.7x	4.1%
1109 HK	CR Land	34.85	32,066	7.6x	8.9x	7.6x	1.3x	1.2x	1.1x	3.5%
2007 HK	Country Garden	10.88	30,707	5.3x	4.7x	4.2x	1.4x	1.2x	1.0x	6.0%
960 HK	Longfor	38.60	29,857	13.1x	10.9x	9.1x	2.2x	1.9x	1.7x	3.5%
1918 HK	Sunac	38.45	23,115	7.3x	5.1x	4.2x	1.9x	1.4x	1.1x	3.6%
813 HK	Shimao	35.00	15,977	9.5x	8.4x	7.0x	1.6x	1.4x	1.2x	4.7%
3380 HK	Logan	14.74	10,498	7.3x	5.8x	4.9x	2.3x	1.8x	1.4x	6.4%
884 HK	CIFI	6.93	7,274	8.7x	5.9x	4.9x	1.6x	1.4x	1.1x	5.1%
1813 HK	KWG	13.80	5,657	4.3x	6.2x	4.7x	1.1x	1.0x	0.9x	6.1%
3383 HK	Agile	10.12	5,115	5.2x	4.7x	4.2x	0.8x	0.7x	0.6x	10.3%
2777 HK	R&F	9.67	4,361	2.9x	2.9x	2.5x	0.4x	0.4x	0.3x	15.0%
3883 HK	Aoyuan*	11.22	3,913	6.6x	4.3x	3.8x	1.8x	1.4x	1.2x	5.4%
1233 HK	Times	15.34	3,844	4.8x	4.2x	3.5x	1.4x	1.1x	0.9x	6.2%
123 HK	Yuexiu	1.53	3,057	5.7x	5.1x	4.4x	0.5x	0.5x	0.5x	6.7%
1638 HK	Kaisa	3.78	2,981	8.1x	3.9x	3.2x	0.8x	0.7x	0.6x	3.0%
3900 HK	Greentown	9.19	2,957	7.8x	7.4x	6.8x	0.6x	0.6x	0.6x	3.7%
6158 HK	Zhenro	5.06	2,852	7.8x	6.4x	5.0x	1.2x	1.1x	1.0x	2.2%
1238 HK	Powerlong*	5.15	2,753	7.0x	4.8x	3.8x	0.6x	0.5x	0.5x	8.0%
2772 HK	Zhongliang	5.69	2,630	4.3x	3.8x	3.0x	2.1x	1.4x	1.2x	17.4%
1628 HK	Yuzhou*	3.79	2,557	4.9x	4.8x	3.3x	0.8x	0.7x	0.6x	10.9%
1966 HK	China SCE	4.04	2,180	5.0x	4.4x	3.5x	0.9x	0.7x	0.6x	6.0%
3301 HK	Ronshine	7.74	1,700	3.7x	3.0x	2.5x	0.7x	0.6x	0.5x	4.7%
95 HK	Lvgem*	2.51	1,640	9.1x	6.8x	6.5x	0.9x	0.8x	0.7x	2.4%
832 HK	CCRE*	3.90	1,398	4.9x	3.8x	2.7x	1.0x	0.9x	0.7x	12.1%
272 HK	Shui On Land	1.33	1,384	6.0x	NA	NA	0.2x	0.2x	NA	9.3%
119 HK	Poly Prop	2.63	1,243	2.8x	3.3x	2.7x	0.3x	0.3x	0.3x	7.9%
1996 HK	Redsun*	2.65	1,135	6.3x	4.5x	3.8x	0.6x	0.5x	0.5x	4.7%
1098 HK	Roadking	11.54	1,116	2.9x	NA	NA	0.5x	NA	NA	10.2%
2019 HK	Dexin China	3.14	1,094	4.7x	4.3x	3.6x	1.5x	NA	NA	2.9%
6111 HK	Dafa*	4.10	438	6.4x	6.0x	5.7x	0.9x	0.8x	0.7x	3.9%
230 HK	Minmetals*	1.01	436	4.1x	5.1x	3.7x	0.4x	0.4x	0.3x	7.9%
Total/Average			332,065	6.5x	5.5x	4.6x	1.1x	0.9x	0.8x	6.4%

Source: Company data, *AMTD Research Estimates

Note: As of 8th July

Key Downside Risks:

- (1) Greentown Management's share price decline, resulting in a lower multiple as a valuation benchmark for CCRE's asset light business;
- (2) Growth slow down in asset light business, resulting in market continuing to apply a holding company discount
- (3) Overall contracted sales slow down in CCRE

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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

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