August 3, 2020

AMTD 尚乘
Equity Research

Central China New Life Limited

Blossoming on Deep Roots in Henan Province

We initiate coverage of Central China New Life (CCNL), which has 57mn sqm GFA under management mostly in central China region. Deeply rooted in Henan Province offers CCNL an unrivalled competitive edge in its localized services, in our view. We expect CCNL to outperform in the industry. Initiate with Buy, target price of HK$13.08/sh, implying 34.7x 20E P/E.

Not just another property management company, it is a community

Different from the other HK-listed property management companies, CCNL focuses on creating value for the community that the Central China Group has built over the years. Central China's Group's geographically focused strategy in Henan Province is finally paying off, as it will offer its Services Company CCNL an unrivalled competitive edge, in our view. CCNL is not merely a property management company, but value-added services such as ticketing sales, Jianye+ online platform, etc. are key revenue contributors. With the overall China Property GFA completion peaking in 2020E-2022E, we believe services companies such as CCNL with a focus on value-added services for its existing community will outperform the pure property management companies in the longer run.

Reaping the harvest from CCRE's fast growing asset light business

Sister company Central China Real Estate (832.HK) has been among the first few developers in the HK-listed universe to have begun its asset light project management business a few years ago, and have more than quadrupled in contracted sales during 2017-2019. Property management contracts from these asset-light projects will be a key driver to CCNL's property management business during 2020E-2022E, in our view. As a result, we expect CCNL to outperform peers, as other property management companies' backing developers struggle with growth due to the capital intensive business nature of property development.

Single Province strategy underpins unrivalled VAS potential

Geographical concentration in Henan has long been a valuation drag for sister company Central China Real Estate (832.HK), but we believe it is a competitive advantage for service-based business like Central China New Life. We believe Central China Group's strategy to have rooted deeply in Henan Province for over 20 years will finally be paying dividends through the cross-selling of localized services such as Central China Consumer Club, travel services and foodcourts. 55m sqm of GFA under management in a single province is the largest among any property management companies in the sector. Services have, by definition, a localized reach. Thus with Central China's community of customers being in the same province, it will underpin the growth potential of its Value-Added and Lifestyle Services cross-selling to its community. The company has also developed an O2O platform (Jianye+) to foster the further growth potential and widen out the net.

Our Target Price HK$13.08/sh implies 34.7x P/E and offering 23% upside

Our Target Price of HK$13.08/sh is based on a DCF valuation model, and implies 34.7x P/E, which we believe is justified by its 34% 2019-2022E net profit CAGR. With the stock currently trading at HK$10.60/sh (28.1x 2020E P/E), we believe there is still 23% potential upside despite its strong post-IPO share performance.

Stock code: 9983.HK

Rating: Buy

Price target (HK$)	13.08
Previous price target (HK$)	NA
Current price (HK$, 23 July 2020)	10.60
Upside/downside %	23%
Market cap (HK$ m)	13,197
Market cap (US$ m)	1,702
Avg daily turnover (US$ m)	20.60

Source: Bloomberg, AMTD Research

Key forecasts

(RMB m)	2019	2020e	2021e	2022e
Revenue	1,754	2,625	3,550	4,472
yoy %	152.8%	49.6%	35.3%	26.0%
Gross profit	576	843	1,121	1,395
yoy %	258.6%	46.3%	33.0%	24.4%
Core Net Profit	243	353	468	580
yoy %	NA	45.3%	32.5%	23.8%
Gross margin	32.8%	32.1%	31.6%	31.2%
Net gearing ratio	Net Cash	Net Cash	Net Cash	Net Cash
EPS	NA	0.34	0.38	0.47
DPS	NA	0.10	0.11	0.14
BPS	NA	2.13	2.40	2.72

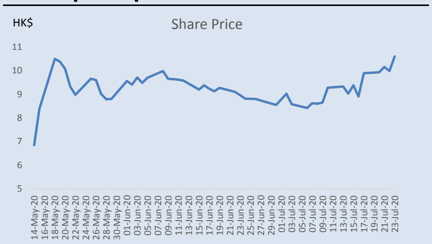
Source: Company data, AMTD Research Estimates

Valuation

	2019	2020e	2021e	2022e
P/E	NA	28.1	25.8	20.8
P/BV	NA	4.5	4.0	3.6
Div. yield	NA	0.9%	1.0%	1.2%
ROE	63.3%	13.4%	15.8%	17.2%
ROA	16.0%	9.5%	11.5%	13.0%

Source: Company data, AMTD Research Estimates

Share price performance



Source: Bloomberg

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Financial Summary

Figure 1: Central China New Life Financial Forecasts and Key ratios

PnL, RMB mn	2018	2019	2020e	2021e	2022e
Revenue	694	1,754	2,625	3,550	4,472
COGS	(533)	(1,178)	(1,782)	(2,429)	(3,077)
Gross Profit	**161**	**576**	**843**	**1,121**	**1,395**
Selling and marketing expenses	(12)	(46)	(70)	(94)	(119)
General and administrative expenses	(86)	(230)	(345)	(466)	(587)
Net impairment losses on financial assets	(2)	(0)	(0)	(0)	(0)
Other income	49	20	52	71	89
Other gains—net	5	4	6	8	10
Finance cost—net	(43)	(16)	(16)	(16)	(16)
Share of net (loss)/profit of an associate	(1)	(0)	(0)	(0)	(0)
Profit before tax	**72**	**308**	**471**	**624**	**773**
Income tax expense	(20)	(75)	(118)	(156)	(193)
Loss from discontinued operation	(70)	(5)	-	-	-
Net profit	**(18)**	**228**	**353**	**468**	**579**
Shareholders' Profit	19	234	353	468	579
Minority Interest	(37)	(6)	-	-	-
Shareholders' Core Net Profit	**NA**	**243**	**353**	**468**	**580**
EPS - basic	NA	NA	0.34	0.38	0.47
EPS-underlying	NA	NA	0.34	0.38	0.47
DPS - basic	NA	NA	0.10	0.11	0.14
BVPS	NA	NA	2.13	2.40	2.72

Balance Sheet, RMB mn	2018	2019	2020e	2021e	2022e
Property, plant and equipment	21	18	18	19	20
Intangible assets	8	73	73	73	73
Investment properties	214	-	-	-	-
Others	39	10	10	10	10
Non-current assets	**283**	**101**	**102**	**102**	**103**
Trade and other receivables	871	767	767	767	767
Financial assets at fair value	35	2	2	2	2
Restricted cash	0	0	0	0	0
Cash and cash equivalents	134	585	2,857	3,184	3,589
Others	-	8	8	8	8
Current assets	**1,041**	**1,362**	**3,635**	**3,962**	**4,367**
Borrowings	430	-	-	-	-
Contract liabilities	34	59	59	59	59
Others	137	5	5	5	5
Non-current liabilities	**601**	**64**	**64**	**64**	**64**
Borrowings	6	-	-	-	-
Trade and other payables	353	654	654	654	654
Contract liabilities	167	311	311	311	311
Others	99	53	53	53	53
Current liabilities	**626**	**1,018**	**1,018**	**1,018**	**1,018**
Shareholders' equity	117	369	2,642	2,970	3,375
Non-controlling interests	(19)	12	12	12	12
Total equity	**97**	**382**	**2,655**	**2,982**	**3,388**

Cash Flow Statement, RMB mn	2018	2019	2020e	2021e	2021e
Profit before income tax—Continuing opera	72	308	471	624	773
Operating CF before Working Cap	**70**	**328**	**491**	**644**	**793**
Trade and other receivables and prepayme	(134)	(450)	-	-	-
Contract liabilities	70	161	-	-	-
Trade and other payables	101	284	-	-	-
Others	26	(42)	(118)	(156)	(193)
Net Operating Cashflows	**133**	**281**	**373**	**488**	**600**
Net Investing Cashflows	**138**	**644**	**(3)**	**(4)**	**(4)**
Repayments of borrowings	(174)	(436)	-	-	-
Others	(85)	(38)	1,903	(158)	(191)
Net Financing Cashflows	**(259)**	**(474)**	**1,903**	**(158)**	**(191)**
Net Cash Flows	**12**	**450**	**2,273**	**327**	**405**

Key Ratios	2018	2019	2020e	2021e	2021e
GP Margins	23.2%	32.8%	32.1%	31.6%	31.2%
Net Margins	-2.6%	13.0%	13.5%	13.2%	13.0%
Core Attri Net Margins	NA	13.9%	13.5%	13.2%	13.0%
ROE	16.7%	63.3%	13.4%	15.8%	17.2%
ROA	1.5%	16.0%	9.5%	11.5%	13.0%
Net Debt / Total Equity	310.1%	Net Cash	Net Cash	Net Cash	Net Cash
Net Debt / Shareholders' Equity	258.6%	Net Cash	Net Cash	Net Cash	Net Cash
Total Assets / Total Equity	1360.4%	383.5%	140.8%	136.3%	131.9%
Total Assets / Shareholders' Equity	1134.7%	396.1%	141.4%	136.8%	132.4%
Asset turnover	52.1%	125.9%	101.0%	91.0%	104.8%

Source: Company data, AMTD Research Estimates

Investment Highlights

Geographically Focused, Localised Reach, Maximises Potential

CCNL recorded RMB1,754mn of revenue in 2019 with a 17-19 CAGR of 95% and GFA under management reached 57mn sq.m. as at 2019. The CCRE Group has been deeply rooted in Henan province for over two decades and "Central China" brand has become a household name for high quality residential development. The annual management fee takes up a relatively high proportion of average property ASP among peers (Figure 39), which demonstrates CCNL's brand premium in Henan. As the largest property management services provider in Henan province and central China region, we believe CCNL would benefit from the recognizable brand and urbanization growth in Henan.

VAS Business is the key for future growth potential

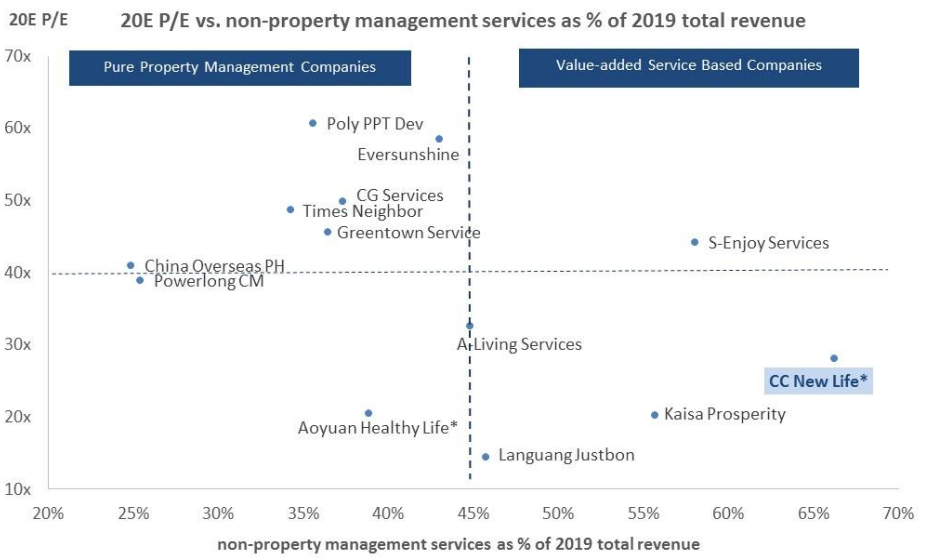
Pure property management companies such as Poly Property Management, China Overseas Property Holdings currently trade at a premium to those with higher value-added services (VAS). We believe, in general, this is due to:

(1) the connected party transaction nature of some VAS earnings contribution; and

(2) the higher earnings visibility of property management revenues.

We believe that this may change in 2021-2022 as property GFA completion growth of the China Property Industry slows down. As a result the next stage of growth for these service companies will be underpinned by the growth in value-added-services to the existing community. Companies such as CCNL which can deliver higher earnings growth from VAS will be re-rated to a higher P/E Multiple, while the pure property management companies will be de-rated due to the slow down in earnings growth.

Figure 2: Companies such as CCNL which can deliver higher earnings growth from VAS will be re-rated to a higher P/E Multiple

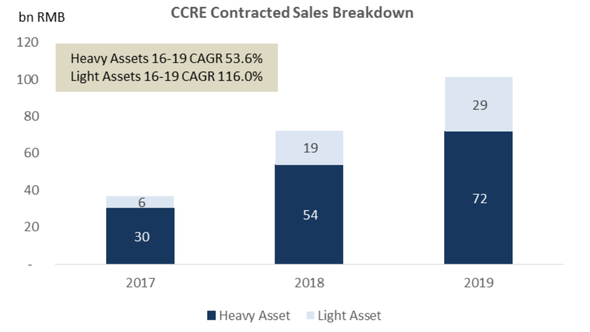


Source: Company data, Bloomberg Estimates, *AMTD Research Estimates

High visibility backed by CCRE's "Light + Heavy" asset model

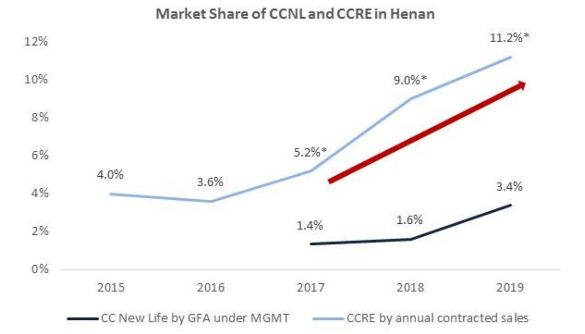
CCRE's market share in Henan in terms of contracted sales increased rapidly to 11.2% in 2019 from 3.6% in 2016 after introducing its asset-light business service. Asset-light contracted sales grew at a 2016-19 CAGR of 116%, much faster than heavy asset contracted sales' 2016-19 CAGR of 53.6%. We thus believe property management contracts from these asset-light projects would be a key driver to CCNL's property management business growth during 20E-22E when these properties are delivered to homebuyers. As a result of CCRE's expansion underpinned by "Light + Heavy" asset model, we expect CCNL to outperform peers, as other property management companies' backing developers struggle with growth due to the capital intensive business nature of property development.

Figure 3: Asset-light business of CCRE would be the key driver of CCNL's GFA growth during 2020E-2022E



Source: Company Data, AMTD Research

Figure 4: CCNL still has large growth room underpinned by CCRE and Henan market

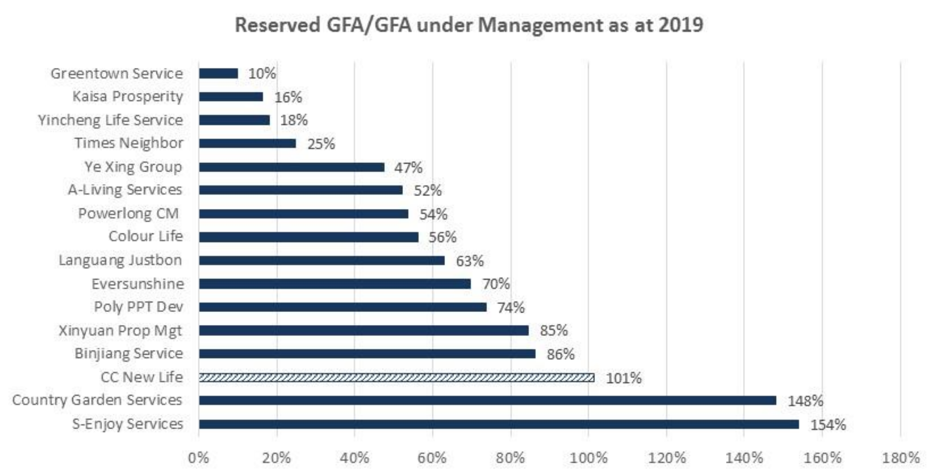


Source: State Statistics Bureau, CREIS, Company data, AMTD Research
Note: * including asset-light business

High Earnings Visibility from Contracted Pipeline Projects

Reserved GFA of CCNL as at 2019 was ~58mn sq.m., which would drive GFA under management of CCNL grow by 101% on the 2019 base. We estimate GFA under management would reach 144mn sq.m. with a 19-22E CAGR of 36% and property management revenue would increase to RMB1,731mn with a 19-22E CAGR of 43%. Thus growth outlook has been largely secured in property management segment.

Figure 5: The reserved GFA implies fast-growing in foreseeable future



Source: Company data, AMTD Research
Notes: Reserved GFA=Contracted GFA - GFA under management

VAS: Low Customer Acquisition Cost for High Lifetime Value

98% of GFA in CCNL's management portfolio located in Henan province as at 2019 and we believe the localized services matrix in a single province helps CCNL to offer desirable offerings to different customer groups and create cross-selling opportunities and synergies. By leveraging the customer base of its basic property management business, CCNL can acquire high quality users (middle-class) and offer services to meet their daily needs, including daily necessities, food and social contact. Such a low customer acquisition costs coupled with high customers' lifetime value underpin CCNL's long-term growth and profitability, is a key formula to success, in our view.

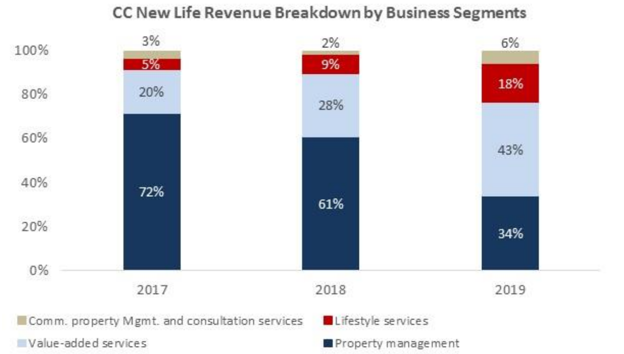
Figure 6: CCNL meets almost all daily needs of residents and owners

Services	Daily Needs Types					
	Living	Daily Necessities	Eating	Travel	Social Contact	Others
Property Management	✓					
VAS	✓					VAS to non-property owners
LifeStyle						
Jianye +	✓	✓			✓	Membership Benefit
Travel services				✓		
Foodcourts			✓			
Commercial Service	✓			✓		Shopping Mall

Source: Company data, AMTD Research

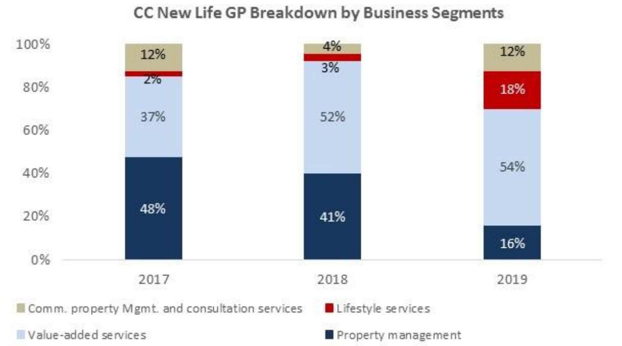
Apart from basic property management services, the other three segments realized RMB1,162mn of revenue in 2019 with a weighted average gross margin of 42%, contributing to 66% of revenue and 84% of gross profit. With the overall China Property GFA completion peaking in 2020E-2022E, we believe services companies such as CCNL with a focus on value-added services for its existing community will outperform the pure property management companies in the longer run.

Figure 7: Apart from property management services, other segments contributed to 66% of revenue in 2019…



Source: Company data, AMTD Research

Figure 8: … and also contributed to 84% of gross profit in 2019 with weight average gross margin of 42%

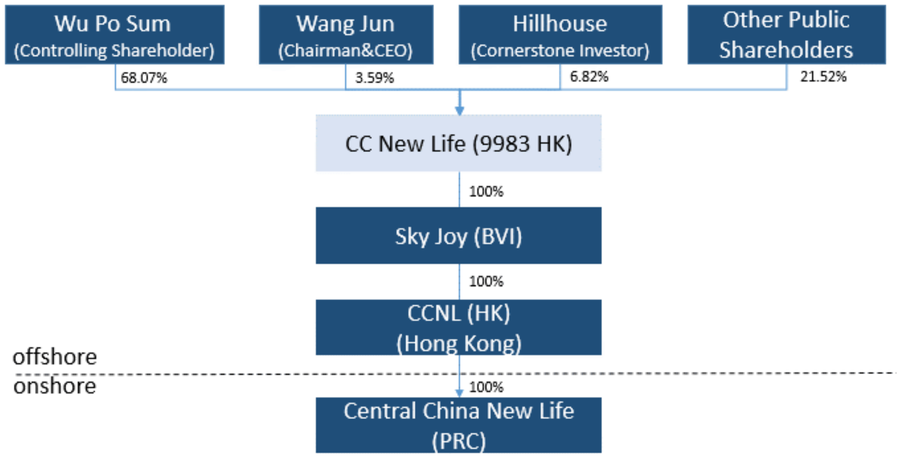


Source: Company data, AMTD Research

Business Model

CCNL, with operating history of more than two decades, is the largest property management company in central China region as of Dec 31, 2018 according to China Index Academy. CCNL also ranked 13th among the Top100 property management companies in China in 2019 according to China Index Academy. Mr. Wu Po Sum is the controlling shareholder of CCNL and CCRE (832 HK), the leading developer in Henan with market share of 11.2% in 2019 by contracted sales.

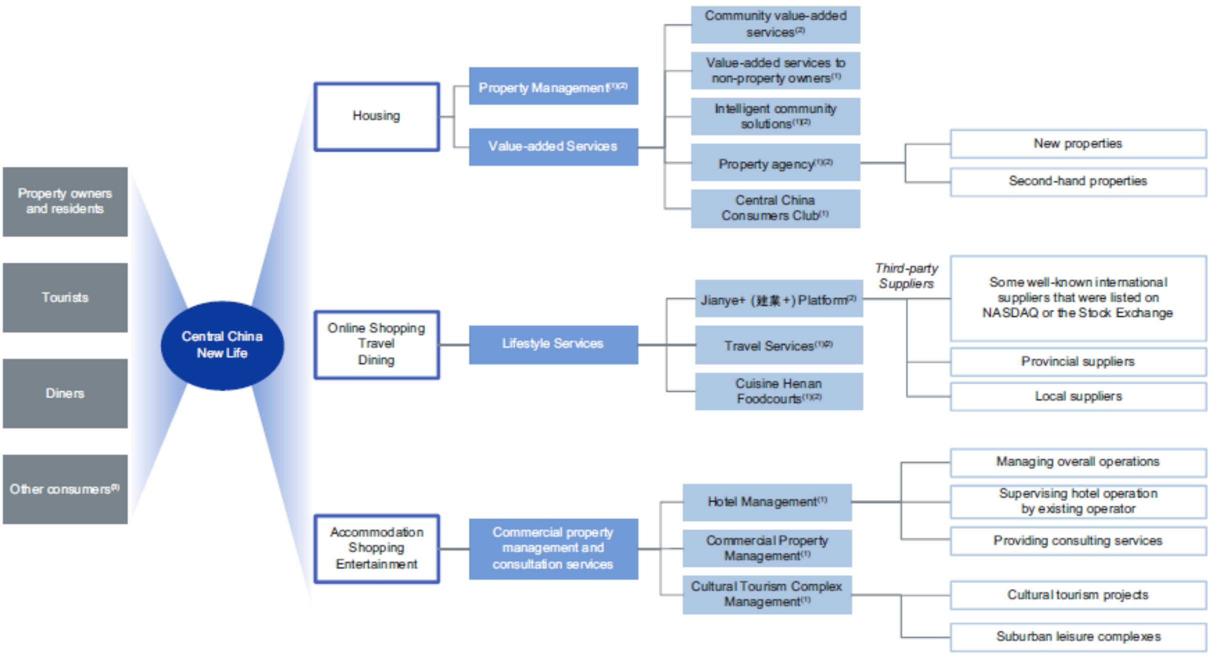
Figure 9: Shareholders' Structure of Central China New Life as at 23rd July



Source: HKEx, Company data, AMTD Research

CCNL provides three major businesses: 1) property management services and value-added services, 2) lifestyle services, and 3) commercial property management and consultation services. Through its business matrix, it can serve property owners and residents, developers, companies, and clients from Central China Group.

Figure 10: Central China New Life Business Segments



Source: Company data, AMTD Research
Notes: (1) Business-to-Business "B2B" offerings; (2) Business-to-Consumers "B2C" offerings; (3) Consist of football fans of Jianye Football Club and teachers and parents of Central China Education

Property Management- Services

CCNL provides property management services to communal areas and facilities, including cleaning, security, gardening, repair and maintenance. Customer services are also an important part of the segment, including assisting property owners and residents with daily services and handling customer complaints and suggestions.

CCNL employs on-site personnel to provide property management services and it also engaged 27 subcontractors as at 2019 to provide certain property management services, which mainly include cleaning, greening and gardening and security guard functions.

Value-added Services

VAS includes five categories:

1) Community VAS. CCNL offers services including clubhouse, interior repair and maintenance, housekeeping and cleaning, vehicle cleaning and charging, drinking water, group purchase, furnishing, item pick up, property purchase service outside Henan, and platinum butlers. By leveraging online one-stop service platform Jianye+, CCNL can service online requests which are convenient to customers.

2) VAS to non-property owners. CCNL provides onsite sales assistance, consultancy and advice to property developers at various phases of their operations, and property inspection service to property developers in order to assist them in ensuring the quality of the properties.

3) Intelligent community solutions. CCNL provides intelligent community solutions to property developers and intelligent home devices to property owners. For developers, CCNL assists property developers in planning, designing and construction supervision; provides installation, repair and maintenance services necessary for the establishment of intelligence communities; and provides customized system integration and development services based on customer needs. Intelligent home devices, such as in-home security cameras, can be linked to the Jianye + mobile app.

4) Property agency. CCNL provides property agency services with respect to both new properties and second-hand properties. The company acts as a sales agent for property developers, sourcing potential property buyers and assisting property developers in entering into property sale and purchase agreements with buyers. It also assists individual customers in the sale and purchase of second-hand properties and property leasing.

5) Central China Consumers Club ("CCCC"). CCCC was established by the CCRE Group to provide benefits, privileges and exclusive customer services to its members. CCNL charges the CCRE Group a fixed monthly management fee calculated based on the number of members in the CCCC and additional fees for organizing special events.

Lifestyle Services

Lifestyle services include (1) products and services offered on Jianye+ (建業+) platform, (2) travel services, and (3) management services provided in Cuisine Henan Foodcourts (建業大食堂).

The Jianye + platform is an O2O one-stop service platform which was acquired in 2019 and was first launched in 2015 by the CCRE Group. The Jianye + platform provides three main online services: (i) membership benefits; (ii) concierge services; and (iii) goods and services from One Family Community (一家公社).

CCNL commenced travel business in 2016 and it offers customized travel packages to individual travelers and corporate clients. Travel packages include leisure tours, corporate tours, football tours and educational tours. CCNL also organizes marketing activities in different industries to promote their brand name and diversify client base.

CCNL began to operate Cuisine Henan Foodcourts in 2019 and it has operated six Foodcourts hosting over 330 vendors and offerings food types representing 18 prefecture-level cities in Henan as at 2019. CCNL is responsible for the general management of the foodcourts, while the vendors operate their own food stalls and restaurants under CCNL's supervision.

Commercial Property Management and Consultation Service

Commercial property management and consultation services include hotels, commercial property and culture tourism management. The services aim to streamline operations of a property to reduce costs and attract business to increase income. CCNL started to provide hotel, commercial property and culture tourism management to related parties in 2017, 2019 and 2019 respectively.

Figure 11: Commercial property management portfolio as of 2019

9 Hotels			7 Commercial Properties	
Projects	Type	No. of rooms	Projects	Floor areas('000 sq.m.)
Yanling Jianye The Mist Hot Spring Hotel	Boutique resort	51	Zhengzhou Central China Triumph Square	105
Sky Mansion Serviced Apartment	Serviced apartment	302	Zhengzhou Central China Triumph Center	65
Aloft Zhengzhou Shangjie	Business hotel	172	Linzhou Baicheng Tiandi	24
Holiday Inn Nanyang	Business hotel	353	Xincai Baicheng Tiandi	27
Four Points by Sheraton Luohe	Business hotel	240	Gongyi Baicheng Tiandi	38
Zhengzhou Le Meridien Hotel	Business hotel	337	Luoyang Central China Triumph Square	181
Pullman Kaifeng Jianye	Resort	186	Nanyang Central China Triumph Square	136
Starry Hills Hotel Xuchang	Hostel	31		
Starry Hills Hotel Xinyang	Hostel	86		

Suburban Leisure Complexes (3 in operation and 1 under construction)		
Projects	Status	Site area('000 sq.m.)
Central China Yanling Green House	In operation	2,698
Central China Hebi Green House	In operation	2,935
Central China Zhoukou Green House	Under construction	4,300
Central China Yichuan Green House	In operation	4,483

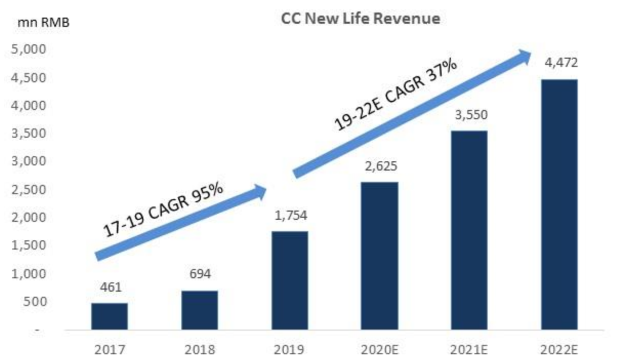
Source: Company data, AMTD Research

Financial Analysis and Forecast

Revenue: 19-22E CAGR of 37%

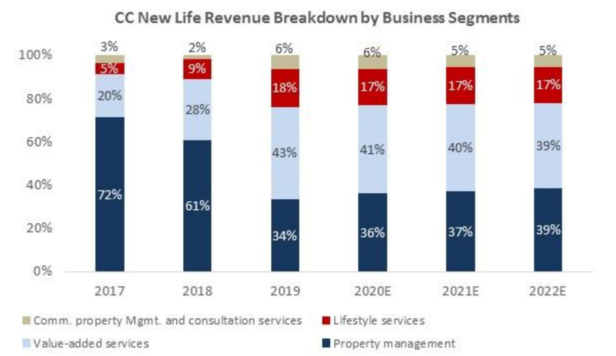
We forecast the revenue would reach RMB2,625mn in 2020E implying a YoY growth of 50%. In 2022E, revenue would reach RMB4,472mn with a 19-22E CAGR of 37%. The revenue structure would remain stable during 20E-22E: property management and VAS would account for ~77%.

Figure 12: Revenue would reach RMB4,472mn with a 19-22E CAGR of 37%



Source: Company data, AMTD Research Estimates

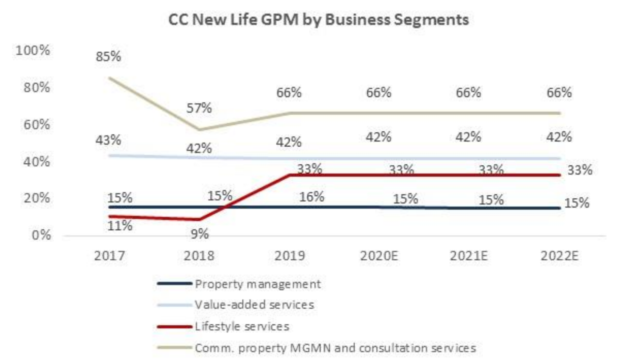
Figure 13: Property management and VAS would contribute to 77-78% of total revenue in 22E



Source: Company data, AMTD Research Estimates

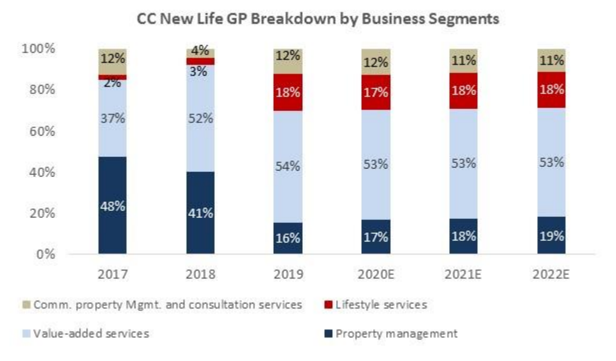
We project gross margin of property management services would edge down to 15.0% to 15.3% during 20E-22E from 15.5% in 2019 due to the three-party GFA increasing. The overall gross margin would also fine-tune to 31%-32% during 20E-22E given the other three segments remain the same gross margin and the portion of property management goes up. Property management service and VAS would contribute to 70%-72% of gross profit during 20E-22E.

Figure 14: Gross margin of every segment would remain stable during 20E-22E



Source: Company data, AMTD Research Estimates

Figure 15: Property management and VAS would contribute to 70%-72% of total gross profit in 22E

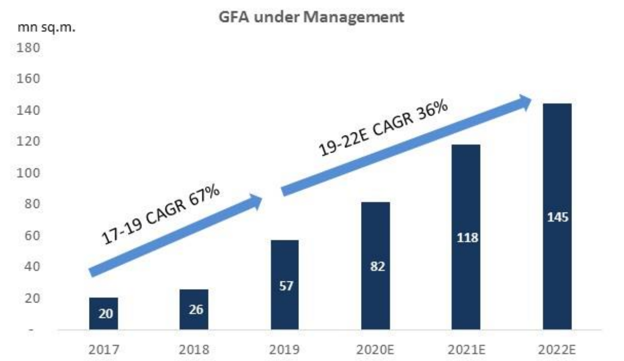


Source: Company data, AMTD Research Estimates

Property Management Revenue: 19-22E CAGR of 43%

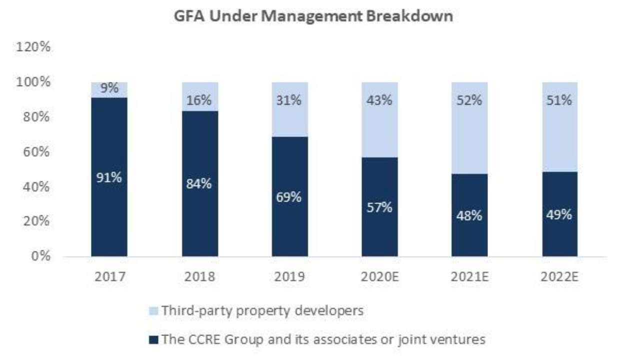
We forecast GFA under management in 20E would reach 82mn sq.m. with a YoY growth of 44% underpinned by CCRE and acquisition. Third parties would be the key driver of the GFA growth and GFA from third parties would account for 51% of GFA under management in 2022E.

Figure 16: GFA under management would reach 145mn sq.m. in 2022E with a 19-22E CAGR of 36%



Source: Company data, AMTD Research Estimates

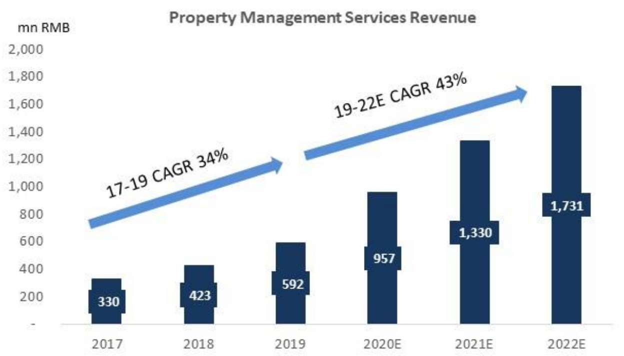
Figure 17: Percentage of GFA under management from 3P would increase to 51% in 22E from 31% in 2019



Source: Company data, AMTD Research Estimates

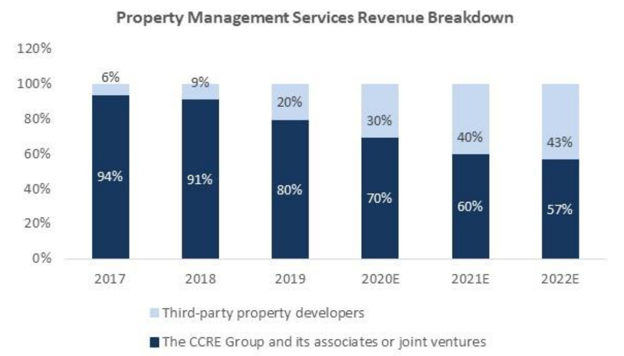
We estimate the revenue from the segment would grow by 62% to RMB957mn in 2020E given the GFA as at 2019 contributes to 12-month revenue and newly-added management projects. Third-party developers would contribute to 30% of revenue in the segment in 2020E and the portion would gradually lift to 43% in 2022E, in line with the growth of GFA under management.

Figure 18: Revenue from property management services would reach RMB1,731mn in 2022E with a 19-22E CAGR of 43%



Source: Company data, AMTD Research Estimates

Figure 19: Percentage of property management services revenue from 3P would increase to 43% in 22E from 20% in 2019

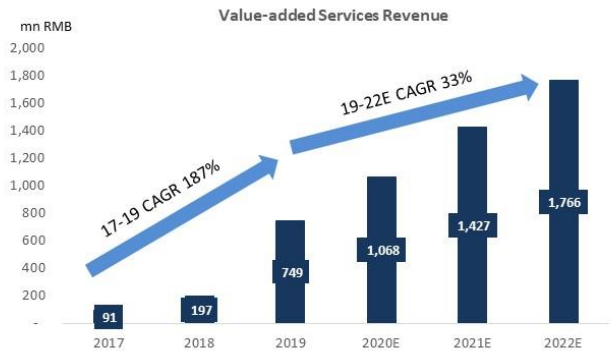


Source: Company data, AMTD Research Estimates

VAS Revenue: 19-22E CAGR of 33%

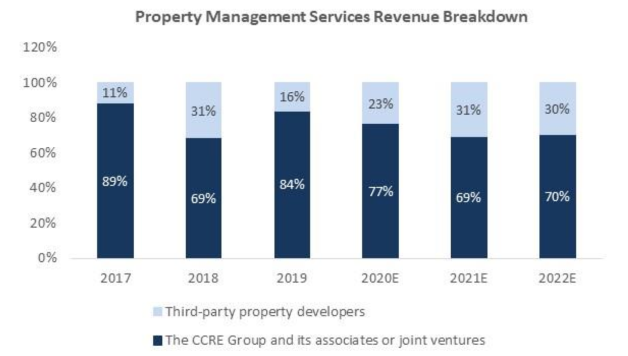
We forecast the revenue of VAS would increase to RMB1,068mn in 2020E with a YoY growth of 30% and revenue would reach RMB1,766mn in 2022E with a 19-22E CAGR of 33%, while the reliance on related parties would decline gradually to 70% in 2022E. We believe community value-added services and intelligent community solutions are the two major business segments to provide services to third parties.

Figure 20: Revenue from VAS would reach RMB 1,766mn in 2022E with a 19-22E CAGR of 33%



Source: Company data, AMTD Research Estimates

Figure 21: Percentage of property management services revenue from 3P would increase to 30% in 22E from 16% in 2019

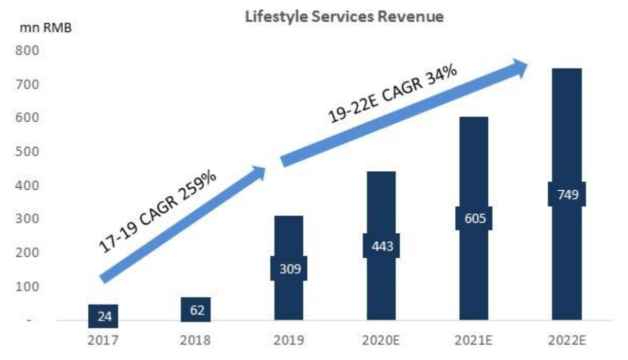


Source: Company data, AMTD Research Estimates

Lifestyle Services Revenue: 19-22E CAGR of 34%

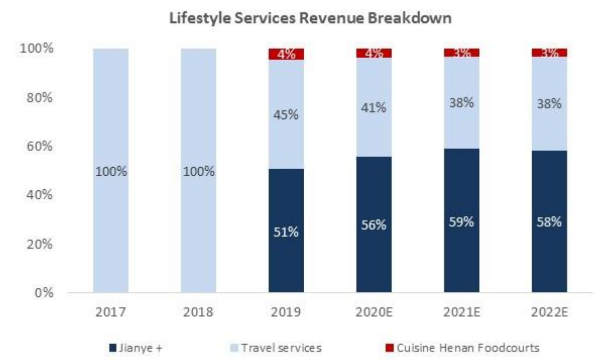
We forecast the revenue from segment would reach RMB443mn in 2020E with a YoY growth of 44% and revenue would record RMB749mn in 2022E with a 19-22E CAGR of 34%. Jianye+ platform would become the pillar of lifestyle services growth with a 19-22E revenue CAGR of 41% and account for 56-59% of revenue in the segment during 20E-22E. Revenue from travel services would grow to RMB287mn in 2022E with a CAGR of 27% and revenue from Cuisine Henan Foodcourts would reach RMB24mn in 2022E with a CAGR of 21%.

Figure 22: Lifestyle services revenue would reach RMB749mn in 22E



Source: Company data, AMTD Research Estimates

Figure 23: Revenue from Jianye+ platform accounted for 58% in the segment in 22E



Source: Company data, AMTD Research Estimates

Commercial Segment Revenue: 19-22E CAGR of 29%

Considering that revenue is mainly from related parties in 2019 and external expansion would be gradual, we estimate the revenue of commercial segment would grow at a CAGR of 29% during 2019-2022E. Thus revenue of commercial segment would increase to RMB157mn/RMB189mn/RMB226mn in 20E/21E/22E respectively.

Figure 24: P&L of Central China New Life

RMB'000 Income Statement	2017 Dec-17	2018 Dec-18	2019 Dec-19	2020E Dec-20	2021E Dec-21	2022E Dec-22
Continuing operations						
Property management	330,377	423,358	592,356	956,820	1,330,335	1,730,643
Value-added services	91,020	197,354	748,736	1,067,710	1,426,520	1,766,090
Lifestyle services	23,877	62,179	308,575	443,062	604,768	748,604
Commercial property management and consultation services	15,258	11,097	104,735	157,103	188,523	226,228
Revenue	**460,532**	**693,988**	**1,754,402**	**2,624,695**	**3,550,146**	**4,471,564**
Property management and value-added services	(279,829)	(358,161)	(500,541)	(810,422)	(1,129,752)	(1,470,918)
Value-added services	(51,705)	(113,636)	(434,813)	(620,051)	(828,422)	(1,025,620)
Lifestyle services	(21,346)	(56,645)	(207,362)	(297,738)	(406,404)	(503,062)
Commercial property management and consultation services	(2,243)	(4,738)	(35,610)	(53,415)	(64,098)	(76,917)
others	(145)	(126)	208	-	-	-
Cost of sales	**(355,268)**	**(533,306)**	**(1,178,118)**	**(1,781,625)**	**(2,428,676)**	**(3,076,517)**
Gross profit	**105,264**	**160,682**	**576,284**	**843,070**	**1,121,470**	**1,395,046**
Property management	50,548	65,197	91,815	146,398	200,583	259,725
Value-added services	39,315	83,718	313,923	447,660	598,098	740,469
Lifestyle services	2,531	5,534	101,213	145,324	198,364	245,542
Commercial property management and consultation services	13,015	6,359	69,125	103,688	124,425	149,310
others	(145)	(126)	208	-	-	-
Selling and marketing expenses	(5,172)	(11,748)	(46,494)	(69,558)	(94,084)	(118,502)
Administrative expenses	(63,681)	(86,360)	(230,311)	(344,560)	(466,049)	(587,009)
Net impairment losses on financial assets	(574)	(1,539)	(182)	(272)	(368)	(464)
Other income	56,809	49,405	20,463	52,494	71,003	89,431
Other gains—net	8,055	4,730	4,096	6,128	8,289	10,440
Operating profit	**100,701**	**115,170**	**323,856**	**487,302**	**640,261**	**788,942**
Finance income	202	223	933	933	933	933
Finance cost	(49,312)	(43,020)	(17,219)	(17,219)	(17,219)	(17,219)
Finance cost—net	(49,110)	(42,797)	(16,286)	(16,286)	(16,286)	(16,286)
Share of net (loss)/profit of an associate accounted for using the equity method	1,310	(506)	(29)	-29	-29	-29
Profit before income tax	**52,901**	**71,867**	**307,541**	**470,987**	**623,946**	**772,627**
Income tax expenses	(13,775)	(19,897)	(74,702)	(117,747)	(155,986)	(193,157)
Profit from continuing operations	**39,126**	**51,970**	**232,839**	**353,240**	**467,959**	**579,470**
Loss from discontinued operation(1)	(42,602)	(69,737)	(5,054)	-	-	-
Profit/(loss) for the year	**(3,476)**	**(17,767)**	**227,785**	**353,240**	**467,959**	**579,470**
Owners of the Company	23,411	19,471	233,954	353,240	467,959	579,470
Non-controlling interests	(26,887)	(37,238)	(6,169)	-	-	-
Core attributable NP	**NA**	**NA**	**243,178**	**353,444**	**468,235**	**579,818**

Source: Company data, AMTD Research Estimates

Figure 25: Balance Sheet of Central China New Life

RMB'000 Balance Sheet	2017 Dec-17	2018 Dec-18	2019 Dec-19	2020E Dec-20	2021E Dec-21	2022E Dec-22
Investment in an associate	2,943	2,437	971	971	971	971
Property, plant and equipment	16,914	21,101	18,082	18,476	18,958	19,534
Intangible assets	9,227	8,333	72,950	72,950	72,950	72,950
Investment properties	240,927	214,444	-	-	-	-
Other receivables and prepayments	649	27,237	2,292	2,292	2,292	2,292
Deferred income tax assets	6,848	9,742	6,962	6,962	6,962	6,962
Non-current assets	**277,508**	**283,294**	**101,257**	**101,651**	**102,133**	**102,709**
Inventories	-	-	5,179	5,179	5,179	5,179
Contract assets	-	-	3,084	3,084	3,084	3,084
Trade and other receivables and prepayments/revenu	894,887	870,779	767,287	767,287	767,287	767,287
Financial assets at fair value through profit or loss	45,207	35,101	1,530	1,530	1,530	1,530
Restricted cash	404	408	312	312	312	312
Cash and cash equivalents	121,814	134,260	584,795	2,857,397	3,184,404	3,589,352
Current assets	**1,062,312**	**1,040,548**	**1,362,187**	**3,634,789**	**3,961,796**	**4,366,744**
Total assets	**1,339,820**	**1,323,842**	**1,463,444**	**3,736,440**	**4,063,929**	**4,469,454**
Borrowings	604,500	430,000	-	-	-	-
Lease liabilities	162,597	136,772	1,256	1,256	1,256	1,256
Contract liabilities	20,857	33,814	59,155	59,155	59,155	59,155
Deferred income tax liabilities	-	-	3,717	3,717	3,717	3,717
Non-current liabilities	**787,954**	**600,586**	**64,128**	**64,128**	**64,128**	**64,128**
Borrowings	5,430	6,426	-	-	-	-
Lease liabilities	56,409	66,383	1,886	1,886	1,886	1,886
Trade and other payables	256,618	353,191	654,265	654,265	654,265	654,265
Contract liabilities	110,216	167,481	310,852	310,852	310,852	310,852
Current income tax liabilities	23,609	32,460	50,664	50,664	50,664	50,664
Current liabilities	**452,282**	**625,941**	**1,017,667**	**1,017,667**	**1,017,667**	**1,017,667**
Total liabilities	**1,240,236**	**1,226,527**	**1,081,795**	**1,081,795**	**1,081,795**	**1,081,795**
Equity attributable to owners of the Company	109,360	116,671	369,442	2,642,438	2,969,927	3,375,452
Share capital	-	-	3	3	3	3
Other reserves	95,000	82,840	123,297	2,149,087	2,149,087	2,149,087
Retained earnings	14,360	33,831	246,142	493,349	820,837	1,226,362
Non-controlling interests	(9,776)	(19,356)	12,207	12,207	12,207	12,207
Total equity	**99,584**	**97,315**	**381,649**	**2,654,645**	**2,982,134**	**3,387,659**
Total equity and liabilities	**1,339,820**	**1,323,842**	**1,463,444**	**3,736,440**	**4,063,929**	**4,469,454**

Source: Company data, AMTD Research Estimates

Figure 26: Cash Flow Statement of Central China New Life

RMB'000 Cash Flow Statement	2017 Dec-17	2018 Dec-18	2019 Dec-19	2020E Dec-20	2021E Dec-21	2022E Dec-22
Cash flows from operating activities						
Continuing operations						
Profit before income tax—Continuing operations	52,901	71,867	307,541	470,987	623,946	772,627
Adjustments for continuing operations:						
—Depreciation of property, plant and equipment	3,909	6,543	10,372	2,983	3,166	3,363
—Amortization of other intangible assets	1,024	458	3,680			
—Allowance for impairment of trade and other receivables	574	1,540	182			
—(Gains)/losses from disposal of property, plant and equipment	(13)	5	65			
—Net exchange gain	-	-	(191)			
—Net fair value gains on financial assets at fair value through profit or loss	(8,042)	(4,735)	(407)			
—Share of loss/(profit) of an associate	(1,310)	506	29			
—Finance cost	49,312	43,020	17,219	17,219	17,219	17,219
—Interest income from loans to entities controlled by Mr. Hua and third parties	(56,267)	(48,880)	(15,933)			
—Share option scheme—value of employee services	-	-	9,382			
—Remeasurement gains on investment in an associate	-	-	(3,563)			
Changes in working capital from continuing operations						
—Trade and other receivables and prepayments	(36,534)	(133,827)	(450,042)			
—Contract liabilities	12,084	70,222	161,264			
—Inventories	-	-	(4,210)			
—Contract assets	-	-	(2,899)			
—Trade and other payables	48,816	101,099	283,552			
—Restricted Cash	(204)	(4)	96			
Cash generated from operations	66,250	107,814	316,137	491,189	644,330	793,208
Income tax paid	(231)	(13,940)	(50,882)	(117,747)	(155,986)	(193,157)
Discontinued operation	17,830	39,588	15,444			
Net cash generated from operating activities	**83,849**	**133,462**	**280,699**	**373,442**	**488,344**	**600,051**
Cash flows from investing activities						
Continuing operations	261,333	159,831	620,876			
Purchases of property, plant and equipment	(3,142)	(4,401)	(14,146)	(3,377)	(3,647)	(3,939)
Purchase of intangible assets	(848)	(515)	(568)			
Proceeds from disposal of property, plant and equipment	20	1	7			
Repayments of loans from other entities	224,576	82,949	564,000			
Interest received	14,417	90,056	54,937			
Payment for acquisition of subsidiaries, net	-	(24,800)	(12,932)			
Acquisition of financial assets at fair value through profit or loss	(586,839)	(78,554)	(278,430)			
Proceeds from disposal of financial assets at fair value through profit or loss	614,649	95,095	309,008			
Injection to an associate	(1,500)	-	(1,000)			
Discontinued operation	(35,174)	(22,324)	23,056			
Net cash generated from investing activities	**226,159**	**137,507**	**643,932**	**(3,377)**	**(3,647)**	**(3,939)**
Cash flows from financing activities						
Capital injection from the shareholders of the Company	-	100,000	9,435	2,025,790	-	-
Distributions to the then shareholders of the Group	-	(100,000)	-	(106,033)	(140,471)	(173,945)
Capital injection by non-controlling interests	-	498	7,448			
Repayments of borrowings	(198,425)	(173,504)	(436,426)			
Cash advances from entities controlled by Mr. Wu	9,159	17,985	21,444			
Cash advances from other entities	-	-	5,781			
Repayments to entities controlled by Mr. Wu	(32,584)	(12,348)	(8,866)			
Repayments to other entities	-	-	(4,300)			
Interest paid	(43,236)	(49,710)	(32,391)	(17,219)	(17,219)	(17,219)
Principal elements of lease payments	(446)	(1,581)	(4,647)			
Listing expenses paid	-	(973)	(7,952)			
Discontinued operation	(22,207)	(38,890)	(23,813)			
Net cash used in financing activities	**(287,739)**	**(258,523)**	**(474,287)**	**1,902,537**	**(157,690)**	**(191,164)**
Net increase in cash and cash equivalents	**22,269**	**12,446**	**450,344**	**2,272,602**	**327,007**	**404,948**
Cash and cash equivalents at beginning of year	99,545	121,814	134,260	584,795	2,857,397	3,184,404
Exchange gain on cash and cash equivalents	-	-	191			
Cash and cash equivalents at end of year	**121,814**	**134,260**	**584,795**	**2,857,397**	**3,184,404**	**3,589,352**

Source: Company data, AMTD Research Estimates

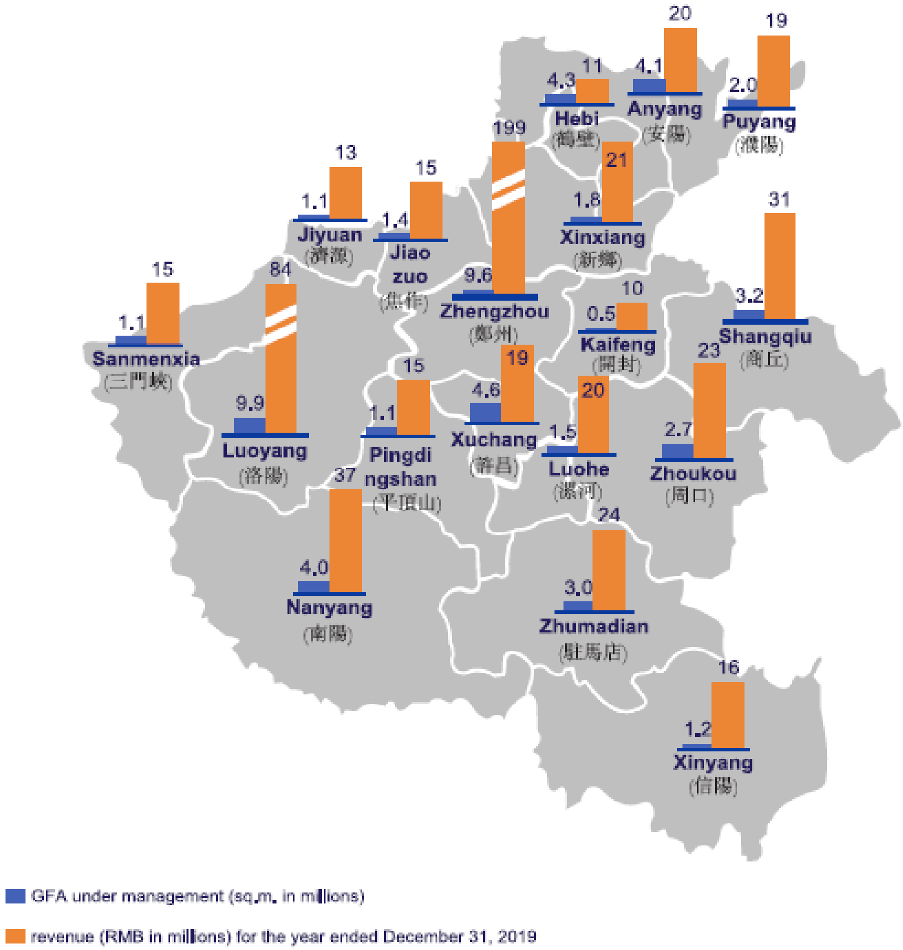
Business Positives: Beyond Property Management Service Provider

Comprehensive services provider with deep penetration in Henan

CCNL provides comprehensive services to enrich living experience and reshape lifestyle for customers based on property management. As the largest property management services provider in central China and ranking 13th in the Top100 property management companies in China in 2019, CCNL has built up the business matrix covering housing, online shopping, travel, dinning, accommodation, shopping and entertainment.

Deeply rooted in Henan region, CCNL would benefit from the recognizable brand and resource integration continuously. CCNL has accumulated a large user base through residential property management and other business (such as cultural tourism, malls, football club and etc.) under Central China Group, and CCNL offers quality resources, extensive benefits and privileges on Jianye+ platform to realize diversified monetarization. We believe regional penetration strategy results in efficient expansion and increasing profitability through coordinated and centralized management.

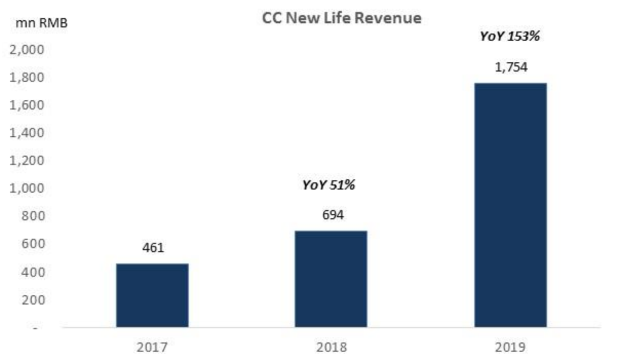
Figure 27: CCNL has covered all 18 prefecture-level cities in Henan as at 2019



Source: Company data, AMTD Research
Notes: GFA under management in Haikou was not illustrated in the graph

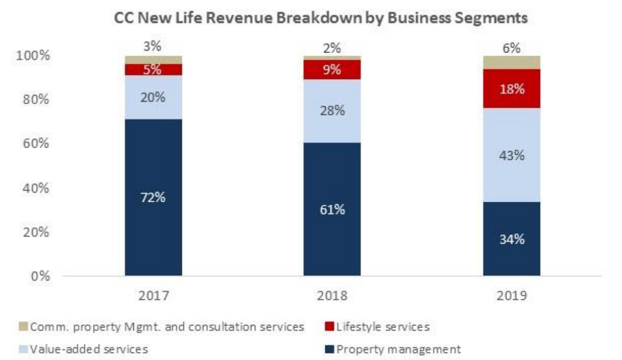
In 2019, revenue of CCNL recorded RMB1,754mn with a 17-19 CAGR of 95%. In terms of business segment, lifestyle services/commercial property management and consultation services contributed 18%/6% to top line. In terms of the customer type, 43% of revenue came from the related parties, while in 2018 the percentage only stood at 19%. By leveraging the brand of Central China and cooperating with other sectors, a solid foundation has been laid for the company's sustainable future development and expansion. Thus we believe the reliance on related parties would decline with increasing bargaining power with third-party developers.

Figure 28: Revenue grew by 153% to RMB1,754mn in 2019



Source: Company data, AMTD Research

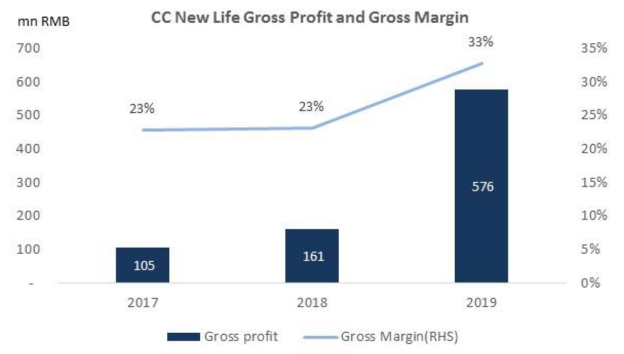
Figure 29: Revenue from lifestyle services accounted for 18% in 2019, higher than 9% in 2018



Source: Company data, AMTD Research

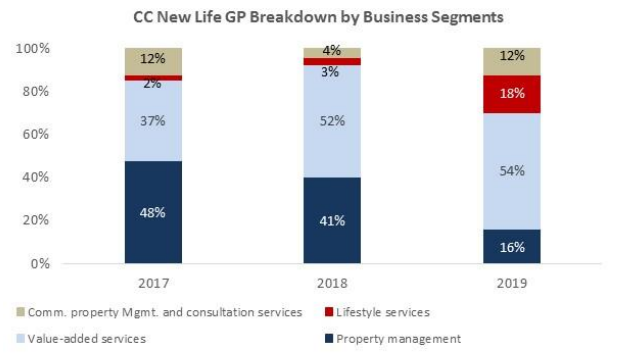
The gross margin increased to 33% in 2019 from ~23% during 2017-2018 thanks to the contribution from value-added services, lifestyle service and commercial business. In 2019, gross profit mainly came from value-added services with a portion of 54%. Meanwhile, lifestyle services and commercial business contributed to 30% of gross profit in 2019. Resource integration across business segments would further cut costs and optimize business portfolio, in our view.

Figure 30: Gross margin increased to 33% in 2019 from 23% in 2018



Source: Company data, AMTD Research

Figure 31: Gross profit from VAS accounted for 54% of total gross profit in 2019



Source: Company data, AMTD Research

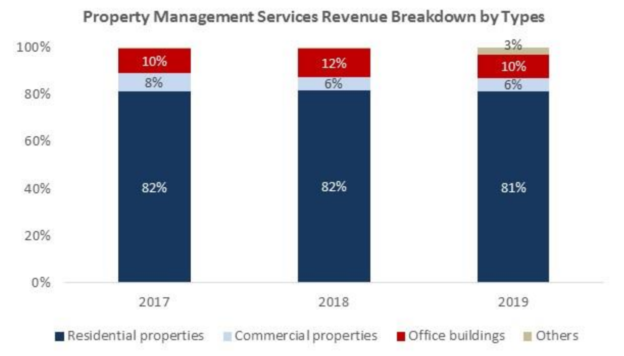
Property management service: brand premiums and high visibility

As at 2019, revenue from property management service rose by 40% to RMB592mn during 2019. Residential property is the main contributor with a percentage of 81%-82% from 2017 to 2019. We expect residential property would remain the largest type in the management portfolio backed by CCRE.

Figure 32: Revenue from property management service was up by 40% to RMB592mn in 2019

Source: Company data, AMTD Research

Figure 33: Residential properties contributed to ~81% of property management services revenue during 2017-2019



Source: Company data, AMTD Research

As of 2019, GFA under management reached ~57mn sq.m., among which residential properties accounted for 70%. In 2019, GFA YoY growth was notably higher than revenue from property management partly due to the time point that GFA accounted into the management portfolio.

Figure 34: GFA under management reached ~57mn sq.m. as of 2019 with a YoY growth of 122%

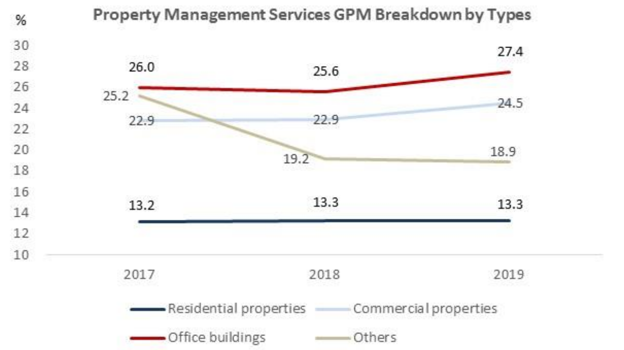
Source: Company data, AMTD Research

Figure 35: Residential properties contributed to ~70% of GFA under management as at 2019

Source: Company data, AMTD Research

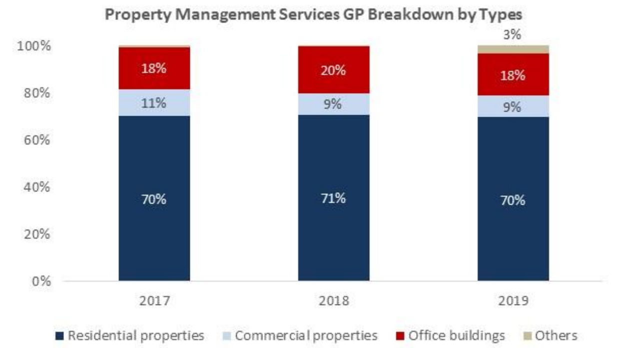
For gross margin, commercial properties and offices have higher gross margins than residential properties during 2017-2019, and the gross margin of residential, commercial and office properties all showed uptrend. Residential properties contributed ~70% of property management services gross profit from 2017 to 2019.

Figure 36: Commercial properties and office have higher gross margin than residential properties during 2017-2019



Source: Company data, AMTD Research

Figure 37: Residential properties contributed to ~70% of property Mgmt. services gross profit from 2017 to 2019



Source: Company data, AMTD Research

For property management business, the growth engine can be broken up into

1) Growth of GFA under management; and

2) ASP Growth

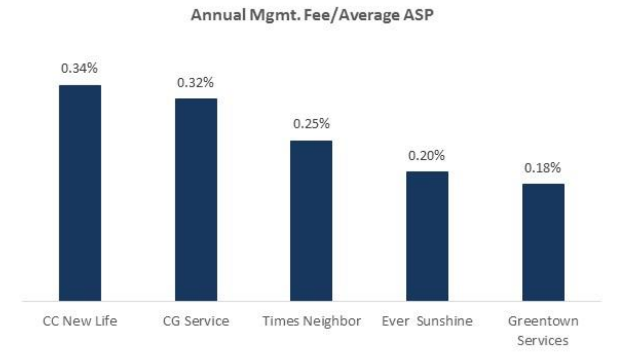
CCRE (832 HK) is a leading developer in central China region with a market share of 11.2% in Henan by contracted sales (including asset-light business) as at 2019. Specifically, CCRE ranked 1st market share in 14 out of 18 prefectural cities of Henan. "Central China" as a household brand for real estate development, would offer CCNL a brand premium of the management fee.

For residential properties under CCNL's management, average property management fee was RMB1.73/RMB1.89/RMB1.82 per sq.m. per month during 2017-2019, relatively lower than its peers. However, combining with the ASP of its residential properties under management, CCNL clearly enjoys brand premiums in the region.

Figure 38: Average residential property management fee was RMB1.82 per sq.m. per month in 2019

Source: Company data, AMTD Research

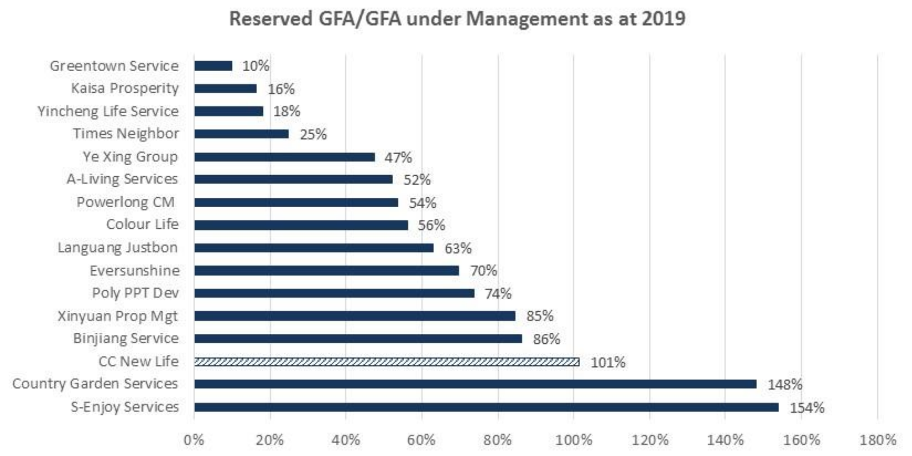
Figure 39: Residential management fee demonstrates the brand premium of CCNL in Henan province



Source: Company data, AMTD Research
Notes: (1) Annual Mgmt. Fee=average resi prop Mgmt. fee during 2018-2019; (2) Average ASP=average contracted sales ASP during 2015-2017

As at 2019, GFA under management reached 57 mn sq.m. with a 17-19 CAGR of 67%, of which 31% are from third parties by client types and 70% belong to residential properties by property types. According to GFA from CCRE and reserve GFA, CCNL has high visibility of GFA growth and we believe GFA expansion would provide a predictable source of revenue growth. Comparing with its peers, CCNL's GFA growth is largely secured. Reserved GFA was ~58mn sq.m as at 2019, which would drive GFA under management of CCNL grow by 101% on the 2019 base.

Figure 40: Reserved GFA implies fast-growing in foreseeable future



Source: Company data, AMTD Research
Notes: Reserved GFA=Contracted GFA - GFA under management

CCRE, CCNL's sister company, has been among the first few developers in the HK-listed universe to have begun its asset-light project management business a few years ago, and have more than quadrupled in contracted sales during 2017-2019. Asset-light contracted sales grew at a 16-19 CAGR of 116% while heavy asset contracted sales grew at a 16-19 CAGR of 53.6%, thus property management contracts from these asset-light projects would be a key driver to CCNL's property management business during 2020E-2022E, in our view. As a result, we expect CCNL to outperform peers, as other property management companies' backing developers struggle with growth due to the capital intensive business nature of property development.

Figure 41: Asset-light business of CCRE would be the key driver of CCNL's GFA growth during 2020E-2022E

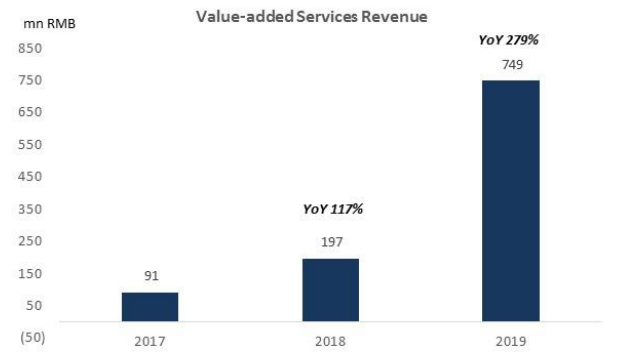
Source: Company data, AMTD Research Estimates

Value-added services: diversified service matrix

All sub-segments of value-added services increased rapidly during 2017-2019, driving revenue from VAS recorded RMB749 mn in 2019 with a 17-19 CAGR of 187%. In 2019, property agency and VAS to non-property owners accounted for 35% and 27% respectively of revenue from VAS.

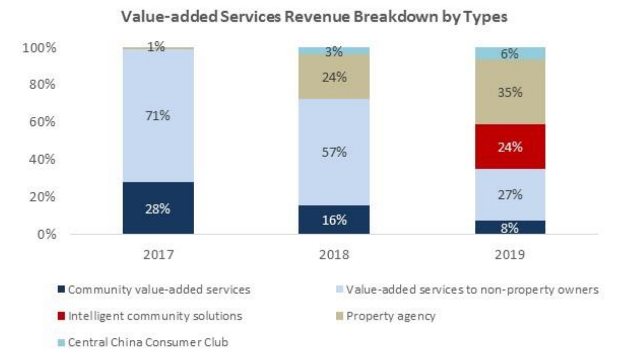
In our view, community VAS and intelligent community solutions would become the development focus given they are able to facilitate service and improve convenience and satisfaction for property owners and residents. Looking ahead, we estimate community VAS and intelligent community services would remain the growth momentum while other businesses would likely turn stable.

Figure 42: Value-added services revenue grew by 279% YoY to RMB 749mn in 2019



Source: Company data, AMTD Research

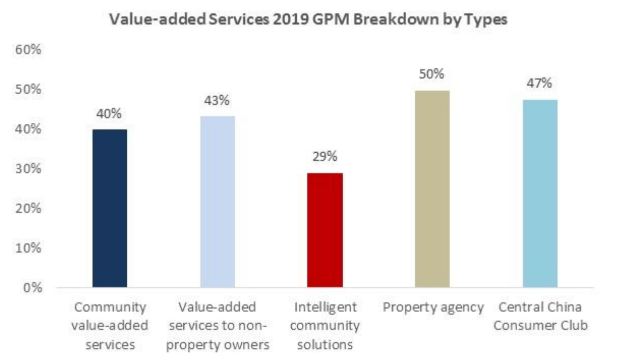
Figure 43: Property agency accounted for 35% of revenue in VAS segment in 2019



Source: Company data, AMTD Research

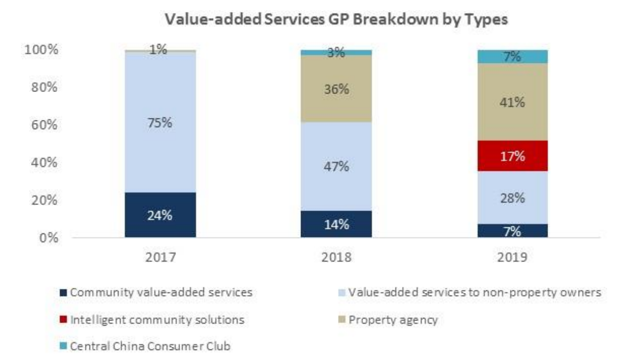
Property agency had the highest gross margin of 50% among five segments of VAS in 2019 and accounted for 41% of gross profit from VAS. Although intelligent community solutions began to be consolidated into the financial report in 2019, it had contributed to 24% of revenue and 17% of gross profit in VAS segment. As well as community value-added services, revenue from intelligent community solutions would increase following GFA expansion.

Figure 44: Property agency had the highest gross margin of 50% in 2019



Source: Company data, AMTD Research

Figure 45: Property agency contributed to 41% of gross profit in VAS segment



Source: Company data, AMTD Research

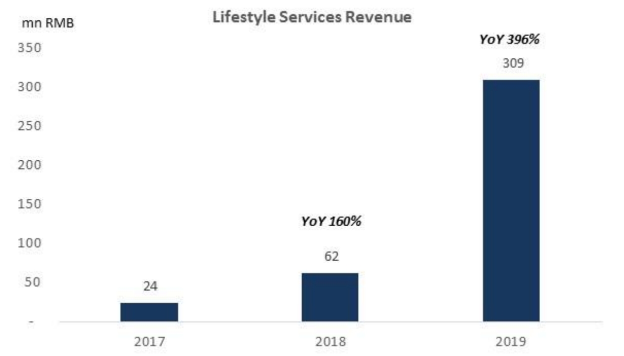
Value-added services can supplement the basic property management services and extend the service chain from property management to housing sale and rental and VIP services, covering clients from property residents and owners to property developers. CCNL aims to transform the properties under management into “5M communities”: safer, healthier, more convenient, more comfortable and greener. Based on its over 30 systems and more than 100 types of hardware from intelligent community solutions, we believe CCNL would set a benchmark for modern and digitalized property management.

Investors might concern property agency and VAS to non-property owners, which are highly correlated to the physical property market. In 2019, those two businesses realized RMB464m of revenue while CCRE realized ~RMB72bn of heavy-asset contracted sales and costed ~RMB2bn for selling and marketing, implying revenue from above two businesses only took up 0.65% of contracted sales and 23.2% of selling and marketing expenses in 2019. Hence we believe the downside risk is limited, as we estimate revenue of VAS to non-property owners and property agency mainly came from related parties.

Lifestyle services: cross-selling and synergies

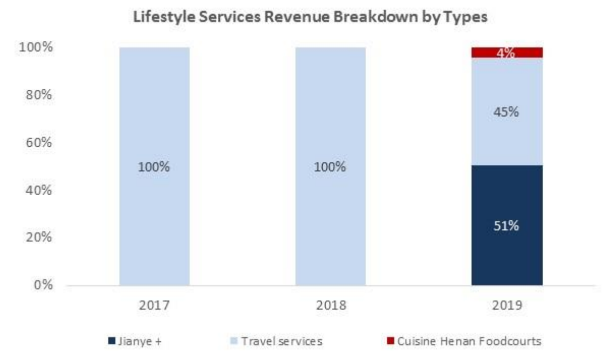
In 2019, lifestyle services realized RMB309mn revenue with a YoY growth of 396% as Jianye+ platform consolidated into CCNL and contributed to 51% of revenue in the segment. As a comprehensive one-stop service platform, Jianye+ has strong monetization capability and growth potential by meeting customers' high-frequency needs.

Figure 46: Lifestyle services revenue was up by 396% YoY to RMB309mn in 2019



Source: Company data, AMTD Research

Figure 47: Jianye+ accounted for 51% of revenue in Lifestyle segment in 2019



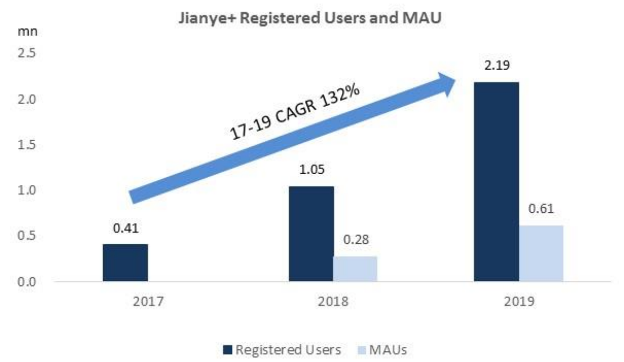
Source: Company data, AMTD Research

Reshaping living and lifestyle by online and offline ecosystem

As a comprehensive one-stop service platform, Jianye+, with ~2.19mn registered users as at 2019, is able to build an online and offline ecosystem, not only improving living experience but also reshaping lifestyle. Jianye+ provides a wide range of selected consumer goods and services for registered users, and residents can also report repair requests through technical support services and communicate with other residents through social networking services on the platform. By meeting the diverse daily needs of users and integrating online and offline resource, we believe CCNL is setting a benchmark of modern and digitalized property management ecosystem.

As at 2019, there were 2.19mn registered users and 0.61 mn MAU on Jianye+ platform and GMV reached RMB426mn in 2019 with a 17-19 CAGR of 117%. Registered users not only come from properties developed by CCRE but also from other business segments under Central China Group such as Central China Culture Tourism, Central China Malls and Jianye Football Club. As at 2019, only 31.1% of registered users were owners and residents of properties developed by related parties.

Figure 48: MAU/Register Users was 28% in 2019



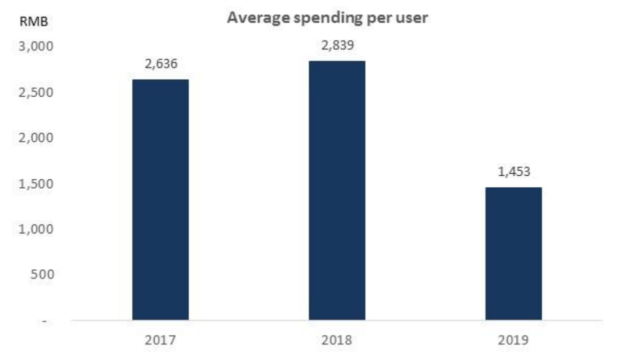
Source: Company data, AMTD Research

Figure 49: GMV reached RMB426mn in 2019

Source: Company data, AMTD Research

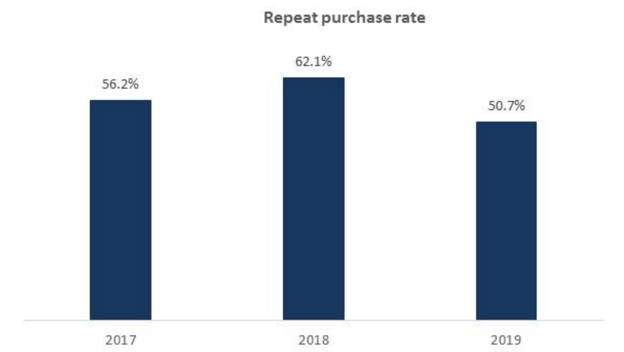
Jianye+ also has strong profitability. In 2019, Jianye+ recorded RMB156mn of revenue and RMB76mn of gross profit with gross margin of 49%. Meanwhile, the average spending per user was RMB1,453 and repeat purchase was 50.7% in 2019, implying brand loyalty to some degree. Under CCNL's positioning in serving vast middle class in central China, we believe users would remain fast-growing following regional penetration, driving the GMV and revenue rise.

Figure 50: The average spending per Jianye + user was RMB1,453 in 2019



Source: Company data, AMTD Research

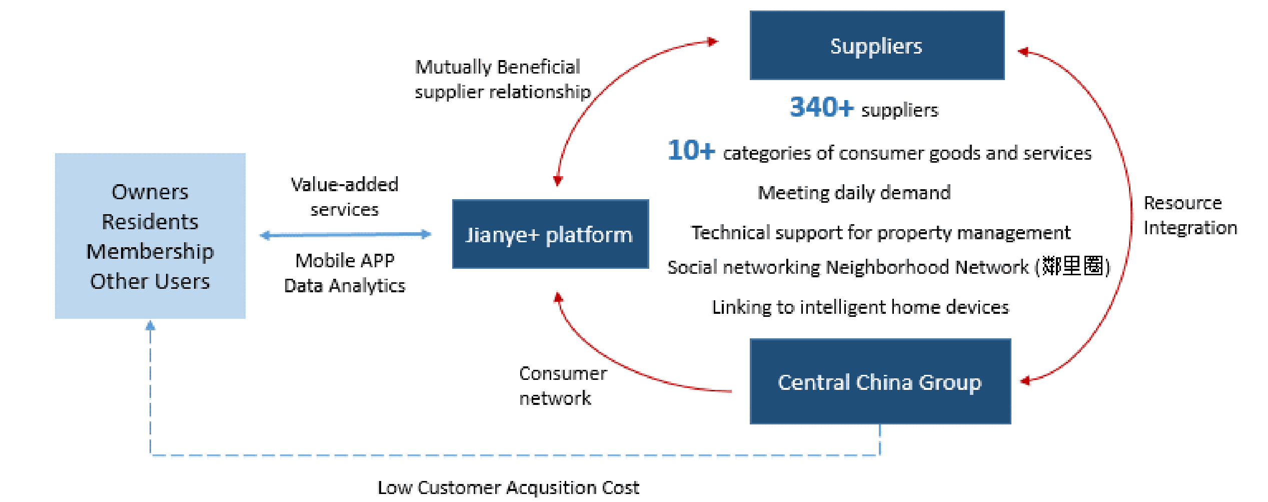
Figure 51: 50.7% repeat purchases implies customers' brand loyalty



Source: Company data, AMTD Research

Aiming to meet the diverse daily needs of registered users and members and integrating online and offline resource, the evaluation system of "platform + agency + owner" are able to connect all segments and realize cross-selling and synergies. We also believe the platform can play a unique value through first-hand information, user profiles and data analytics.

Figure 52: Online and offline ecosystem connecting internal and external resources

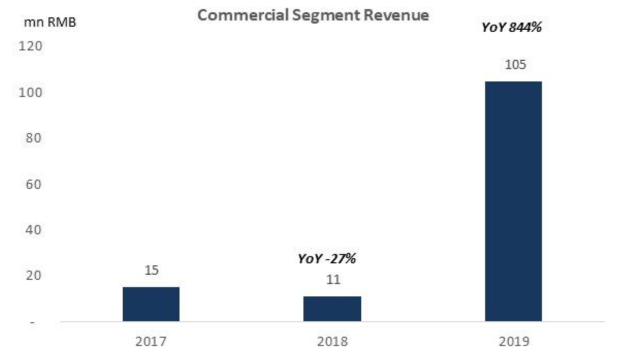


Source: Company data, AMTD Research

Commercial property management & consultation services: amplify property portfolio and improve overall margins

As at 2019, the portfolio of assets under management consisted of 3 cultural tourism complexes, 7 shopping malls and 9 hotels. Revenue from commercial segments reached RMB105mn with a YoY growth of 844% due to the contribution from cultural tourism complexes and shopping malls.

Figure 53: Revenue from commercial segments reached RMB105mn with a YoY growth of 844%



Source: Company data, AMTD Research

Figure 54: Cultural tourism complex management contributed to 68% of the revenue in the segment in 2019

Source: Company data, AMTD Research

Under the segment, 93.5% of revenue came from the properties owned by related parties in 2019. CCNL outputs management capabilities to maximize the value and return on investment properties of Central China Group, which can also amplify CCNL's property management portfolio and enhance CCNL's market position. Along with its reputation building and experience enriching, commercial properties owned by third-parties might also increase.

Meanwhile, the commercial segment also helps improve overall gross margin. During 2017-2019, gross margin of the business recorded 85%/57%/66%, which were the highest among three major business segments each year.

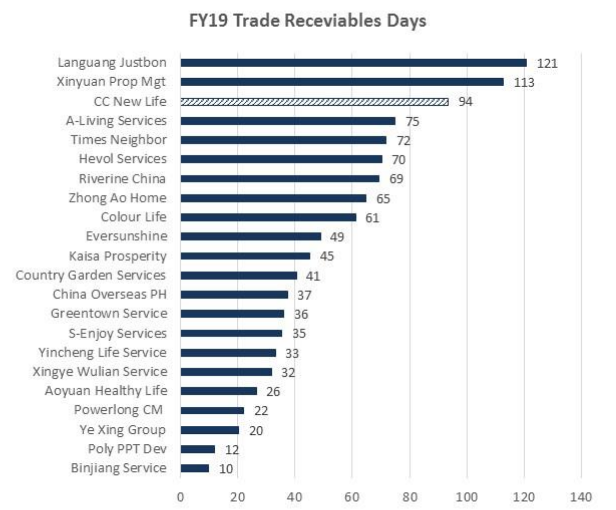
Business Concerns

Cash collection from trade receivables

Trade receivables days recorded 94 in FY19 (industry average: 52 days), implying a potential risk of cash collection. Among gross trade receivables, 83.8% are from property developers, 72.5% are from related parties, 93.8% are within a year and 77.1% generated from value-added services. In our view, the repayment risk is limited given the CCRE Group has provided a repayment commitment letter which the CCRE Group has undertaken that they would settle all of their trade receivables as at 2019 with the company within one year.

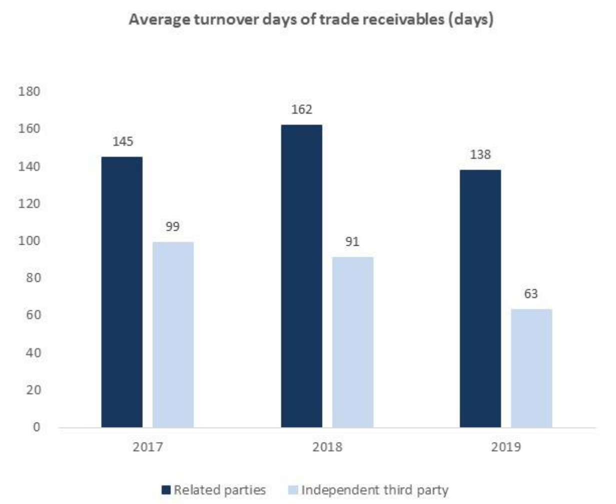
On the other hand, the relatively low portion (16%) of the trade receivables from non-property developers shows the collection of property management fees is healthy and the company announced the collection rate was 85.9%, 89.6% and 90.1% respectively during 2017-2019. Meanwhile, trade receivables days from third parties have declined to 63 days in 2019 thus we believe the cash collection and impairment risks are under control.

Figure 55: Trade receivables days of CCNL recorded 94 as at 2019



Source: Company data, AMTD Research

Figure 56: …but trade receivables days from third parties of CCNL declined to 63 days

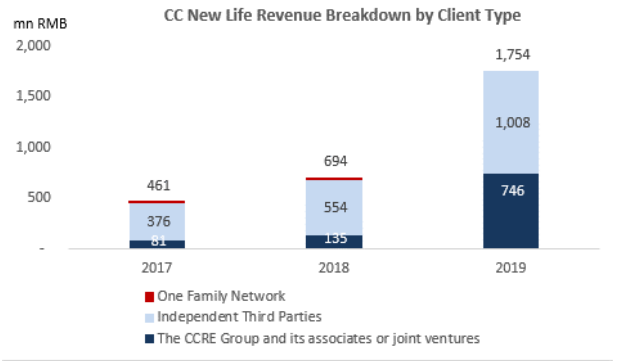


Source: Company data, AMTD Research

Risk from reliance on CCRE Group

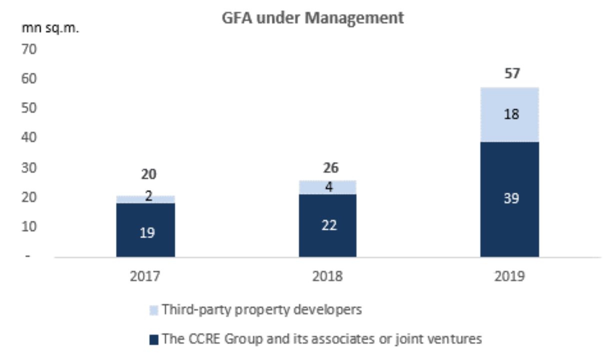
During 2017-2019, a substantial portion of revenue is generated from services that CCNL provided to the CCRE Group and its associates or joint ventures, which amounted to 17.5%, 19.5% and 42.5% of total revenue. As of December 31, 2017, 2018 and 2019, GFA under management was approximately 20.4 mn sq.m., 25.7 mn sq.m. and 57.0 mn sq.m., respectively, of which, approximately 90.9%, 83.7% and 68.9% were developed by the CCRE Group and its associates or joint ventures, respectively. Thus CCNL would lose business opportunities to the extent that the CCRE Group suffers adverse developments that materially affect their property development efforts.

Figure 57: Revenue from related parties accounted for 43% of the total in 2019



Source: Company data, AMTD Research

Figure 58: GFA under management from related parties accounted for 69% as at 2019



Source: Company data, AMTD Research

Relatively low margin of property management services

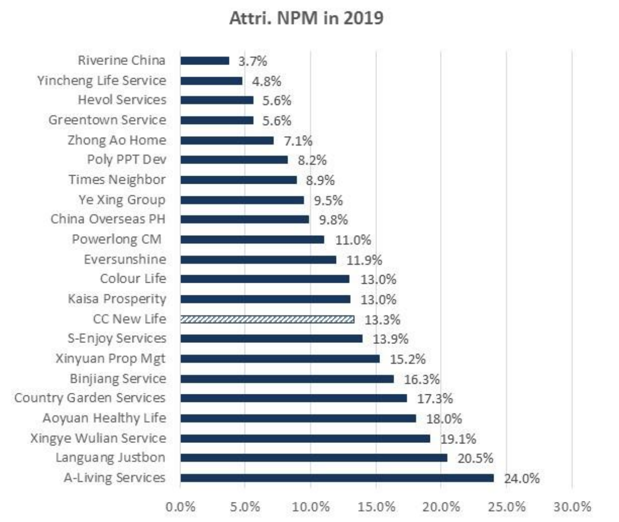
Gross margin of basic property management services for CCNL is lower than the industry average of 21.7% in 2019 and the overall gross margin was 32.8% thanks to the contribution of VAS, lifestyle services and commercial segment in 2019. Eventually, the attributable net profit margin of CCNL was 13.3%, slightly higher than the industry average of 12.3%.

Relatively low gross margin would decline the contribution of basic property management services to total profit, leading a relatively low trading P/E among peers due to higher exposure to cyclical businesses and higher uncertainty in earnings outlook.

Figure 59: GPM of CCNL was lower than industry average of 21.7% in basic property management services

Source: Company data, AMTD Research

Figure 60: Attri. NPM of CCNL was slightly higher than industry average of 12.3%



Source: Company data, AMTD Research

Uncertain growth outlook from VAS and Lifestyle services

Albeit value-added services and lifestyle services are the key business segments to the ecosystem and also pillars to rapid growth with high margins, uncertain growth outlook from VAS and lifestyle services would impact revenue and profit adversely. Value-added services and lifestyle services depend more on consumption ability and willingness, especially community value-added services, Jianye+ and travel services, thus revenue might be affected by macroeconomy and user preference.

Moreover, those services have a limited operating history, which would further increase the uncertainty on sustainable growth. CCNL began its business operations in travel services in 2016, hotel management in 2017, and Cuisine Henan Foodcourts, commercial property management, cultural tourism complex management and intelligent community solutions business in 2019. Those new businesses with an operating history of fewer than 2 years contributed to ~28% of total revenue in 2019, so lower-than-expected growth might be a drag on revenue.

Figure 61: Limited operating business contributed to ~28% of total revenue in 2019

Business	Commence Year	2019 Revenue(RMB '000)
Property Management Services	**Before 2017**	**592,356**
Value-added Services		**748,736**
Community value-added services	**Before 2017**	57,852
Value-added services to non-property owners	**Before 2017**	204,113
Intelligent community solutions	2019	179,944
Property agency	**Before 2017**	259,657
Central China Consumer Club	2018	47,170
Lifestyle Services		**308,575**
Jianye + *	2019	156,316
Travel services	2016	138,789
Cuisine Henan Foodcourts	2019	13,470
Commercial Property Management & Consultation Services		**104,735**
Hotel Management	2017	17,499
Commercial property management	2019	16,451
Cultural Tourism Complex Management	2019	70,785
Total		**1,754,402**
Business starting from 2018 as a % of total revenue		3%
Business starting from 2019 as a % of total revenue		25%

Source: Company data, AMTD Research
Notes: *Jianye + was acquired in 2019 and was first launched in 2015 by the CCRE Group

Business Strategy: Expansion and Brand Build

Expand range of services and develop Jianye+ platform

CCNL plans to cover all cities in Henan and expands geographic alongside the CCRE Group's pipeline of residential, commercial and culture tourism projects outside Henan province. Software (such as data analytics, AI and facial recognition) and hardware (such as servers, smart community IoT devices and new retail experiential devices) would also be introduced and upgraded in the management services and VAS, which would improve users experience, enhance service network and increase interactions with customers.

Jianye+ would continue to acquire users with low cost due to brand awareness and recognition of "Central China". CCNL would also cooperate with more suppliers to expand the scale and diversity of membership resources and provide members with more benefits and privileges and higher quality services experience.

Expand business scale through organic growth, strategic investments, cooperation and acquisitions

CCNL plans to further improve service capability to cover the whole service chain, from project planning and design, to construction consultation, and to commercial property management. Apart from organic growth, CCNL also seeks strategic investment and acquisition opportunities to expand business scale, geographic presence and property portfolio.

CCNL's targets would include: 1) property management service providers with a good reputation, high-quality assets and a total GFA under management of at least 3 mn sq.m.;2) property management service providers with operational efficiency or profit margin improvement potential; 3) companies whose business that will expand property portfolio, such as public properties and office buildings, or geographic coverage, with a focus on the central China region; and 4) other companies that can bring synergies, such as companies providing information technology.

Strengthen brand recognition and marketing, and leverage brand awareness to grow revenues and platforms users

CCNL seeks to further increase the number of MAUs on Jianye + platform through various marketing and promotional channels, including through continuous and expanded cooperation with other well-known brands on this platform, working with internationally recognized hotel operators under our commercial property management and consultation business, and forming new relationships with well-known Chinese and international brands and suppliers.

Enhance commercial property management and consultancy services

In addition to assets of the CCRE Group, CCNL strives to increase commercial property management and consultation services for third parties' assets, in particular assets in the central China region. CCNL also attempts to promote information systems, culture and values to further enhance brand recognition in commercial property management and consultation services.

Further improve management and operational efficiency by leveraging advanced technologies

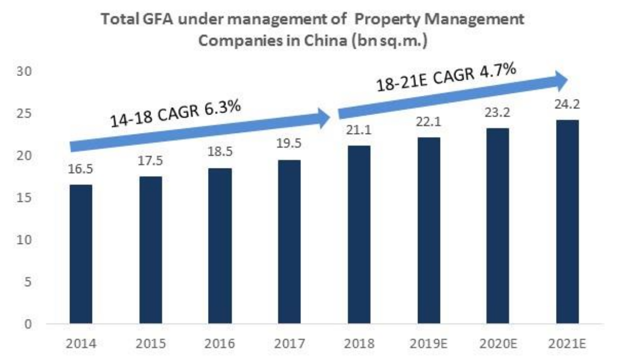
CCNL plans to continually improve management and operational efficiency using advanced information technologies. CCNL targets to build intelligent communities and upgrade facilities, which will cover all managed properties by end of 2020.

Human resources and financial sharing systems would also be developed to monitor full employment life cycle and operating performance, maintain effective control over finances, achieve digitalized documentation and cloud computing to enhance data security and support data analytics, and centralize fully digitalized and synchronized operational data.

Industry: How's CCNL positioned?

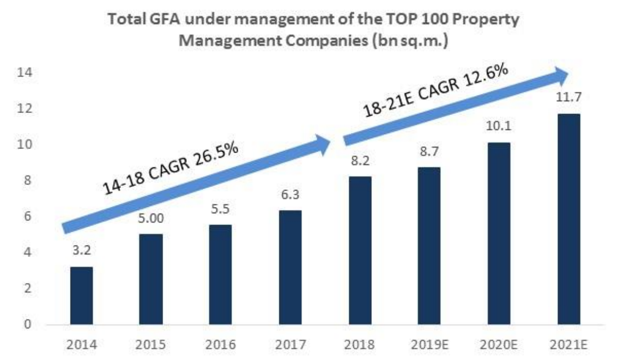
With the entry barriers of brand, technology, management expertise, we believe the market concentration would keep increasing and the top property management companies. According to China Index Academy, GFA under management of Top100 property management companies would reach 11.7 bn sq.m. in 2020E with a 18-21E CAGR of 12.6% and the revenue would increase to RMB~290bn in 2021E with a 18-21E CAGR of 14.2%, implying the GFA expansion is the key driver of revenue growth during 18-21E.

Figure 62: Industry growth would slow down during 2020E-2021E in term of GFA under management…



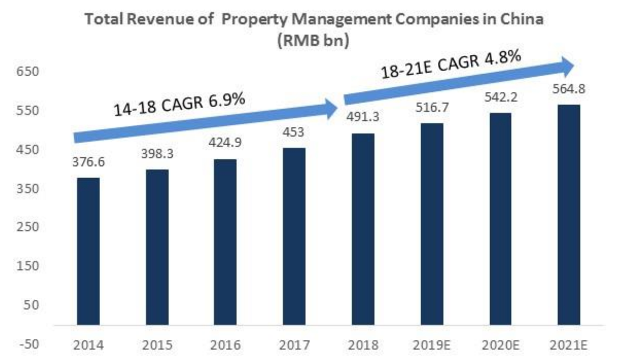
Source: E=China Index Academy Estimates, AMTD Research

Figure 63: …but top property management companies would outperform with 18-21E CAGR of 12.6%



Source: E=China Index Academy Estimates, AMTD Research

Figure 64: Industry revenue would reach RMB~565bn in 2021E with a 18-21E CAGR of 4.8%



Source: E=China Index Academy Estimates, AMTD Research

Figure 65: Revenue of Top100 would reach RMB~290bn in 2021E with a 18-21E CAGR of 14.2%

Source: E=China Index Academy Estimates, AMTD Research

The gap between market share of Top100 by revenue and by GFA under management would widen since 2018 according to China Index Academy, thus we believe the brand premium would gradually emerge in property management fees. In 2018, property management services accounted for ~80% of total revenue for Top100 and the revenue in the industry would diversify in response to residents' demands for better quality and new opportunities from intelligent community facilitated by Internet and mobile applications, in our view.

Figure 66: Market share of Top100 would increase to 51.4% and 48.4% in term of revenue and GFA in 2021E

Source: E=China Index Academy Estimates, AMTD Research

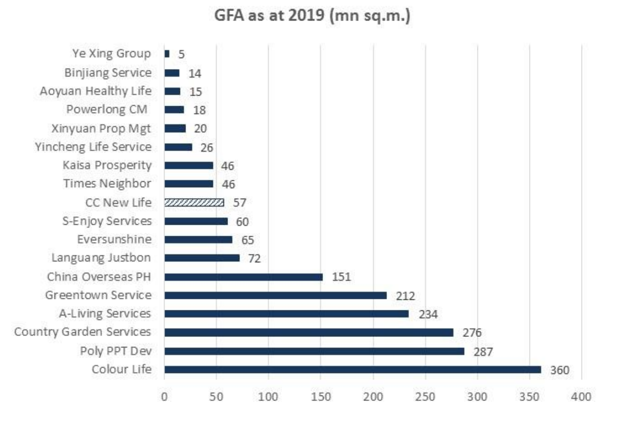
Figure 67: Property management services accounted for ~80% of total revenue during 2014-2018 for Top100

Source: China Index Academy, AMTD Research

CCNL has high visibility given favorable market outlook and penetration in Henan

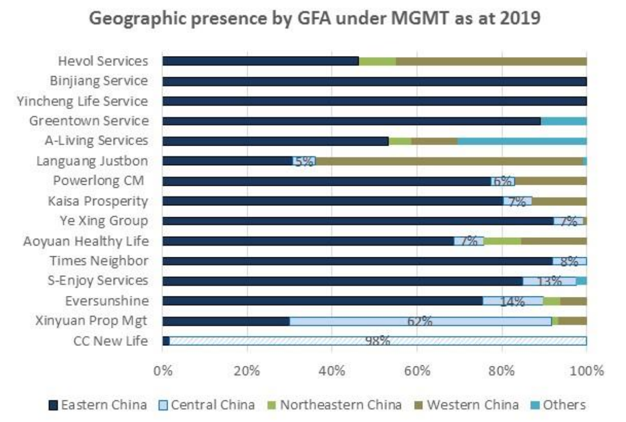
CCNL is an exclusive property management company with the highest exposure to central China region, especially in Henan province. As a medium-sized property management company, CCNL managed 57mn sq.m. of GFA, among which 98% located in Henan province as of 2019.

Figure 68: CCNL is medium-sized property management companies by GFA under management



Source: Company data, AMTD Research

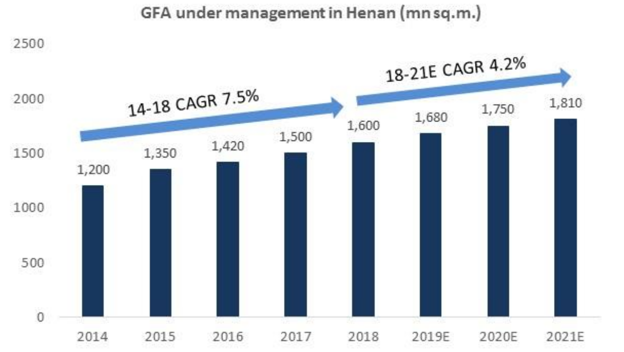
Figure 69: CCNL had the highest concentration in central China region by GFA under management



Source: Company data, AMTD Research

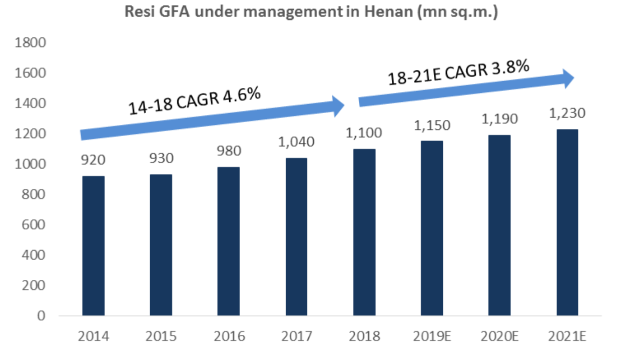
For Henan province, it accounted for 7.6% of the national property management industry in 2019 by GFA under management, while it had 7.8% of China's population as at 2019 and realized 8.3% of national commodity property contracted sales GFA in 2019. Although the property management services in Henan have been limited by urbanization (Henan vs. national: 53.2% vs. 60.6%) so far, the market has more potential for both fees and GFA growth.

Figure 70: Henan market is in line with the national market, with a 18-21E GFA under Mgmt. CAGR of 4.2%



Source: State Statistics Bureau, E=CREIS Estimates, AMTD Research

Figure 71: Residential GFA under management would reach 1,230 mn sq.m. in 2021E in Henan



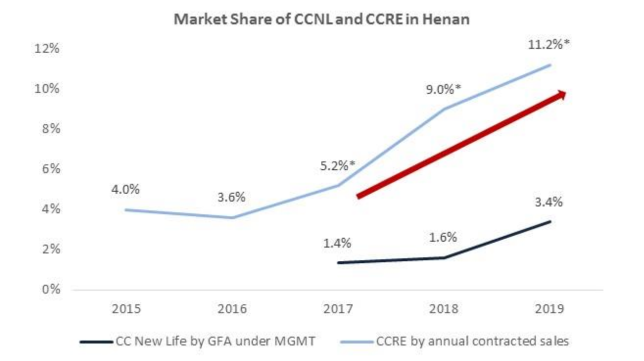
Source: State Statistics Bureau, E=CREIS Estimates, AMTD Research

We believe CCNL has high visibility of growth underpinned by urbanization in Henan and CCRE. The percentage of annual contracted sales GFA in Henan as of national volume has risen following the urbanization of Henan catching up the national level, implying the GFA under management would rise at a relatively high speed in foreseeable years with the property delivery. Meanwhile, the asset-light business of CCRE also offers CCNL more exposure to third-party resources thus we believe the market share of CCNL would increase substantially after the delivery from its backing developers.

Figure 72: The percentage of contracted sales GFA in Henan has risen following the urbanization

Source: State Statistics Bureau, CREIS, Company Data, AMTD Research

Figure 73: CCNL still has large growth room underpinned by CCRE and Henan market



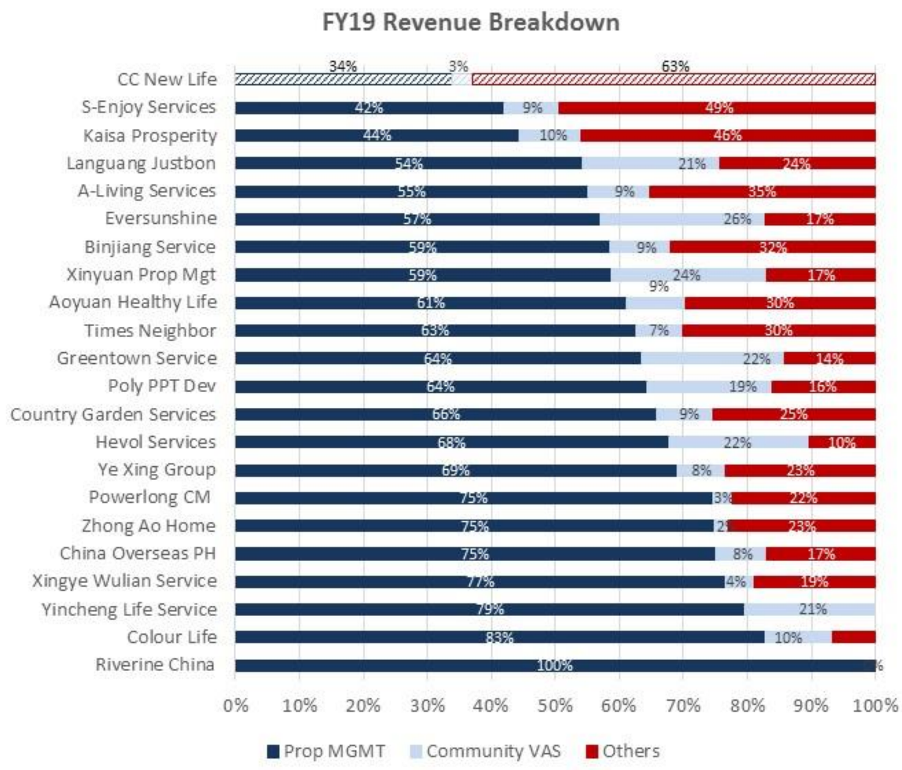
Source: State Statistics Bureau, CREIS, Company data, AMTD Research
Note: * including asset-light business

Unique business model would offer CCNL distinct value

Revenue from basic management service accounts for 34% in 2019 (2018: 61%) for CCNL, lower than the industry average of 65%. Apart from basic property management services, the other three segments realized RMB1,162mn of revenue in 2019 with a weighted average gross margin of 42%, contributing to 66% of revenue and 84% of gross profit.

Diversified services matrix helps CCNL to offer desirable offerings to different customers group and create cross-selling opportunities and synergies. By extending the service chain and covering clients from property residents and owners to property developers, CCNL has strong monetization ability.

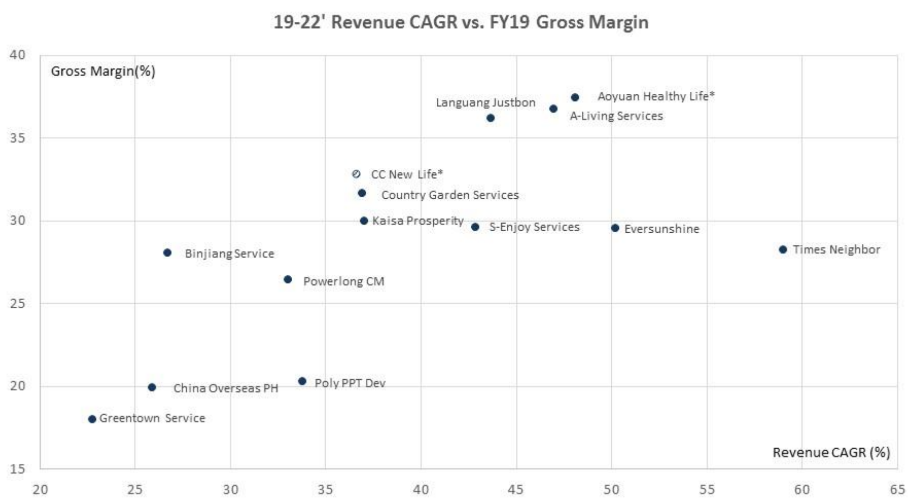
Figure 74: Revenue of CCNL is less dependent on basic property management service



Source: Company data, AMTD Research

Looking forward, we believe the engine of the revenue is still property management and related value-added services, including community VAS, intelligent community solutions and Jianye+ platform. Overall, we estimate revenue of CCNL would grow at a CAGR of 34% during 19-22E with a stable gross margin of 31%-32% as a leading medium-sized property management company.

Figure 75: CCNL is a leading medium-sized property management company

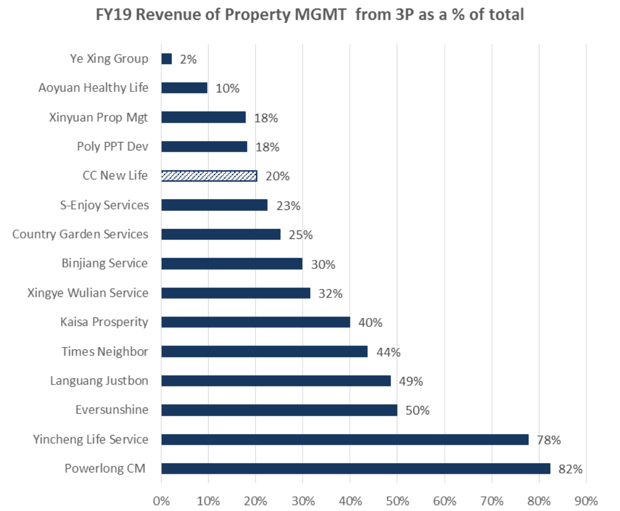


Source: Company data, Bloomberg Estimates, *AMTD Research Estimates

Acquisition would catalyze GFA expansion for CCNL

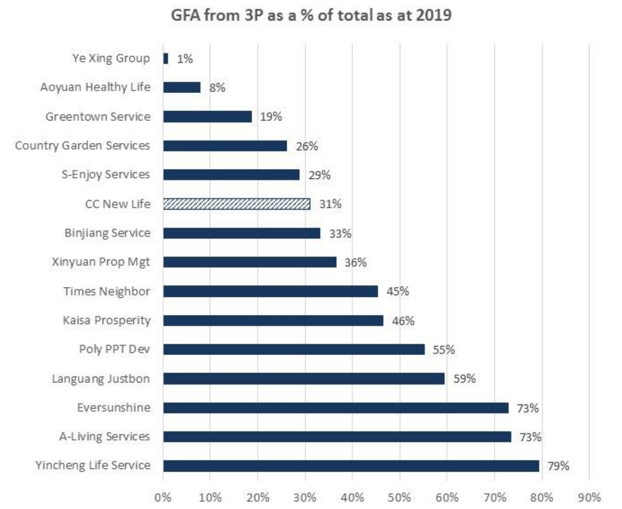
In 2019, third parties only contributed 20% of CCNL's revenue from property management services, and its GFA under management from third parties accounted for 31% as at 2019. We believe GFA from third parties would remain increasing through new engagement and acquisitions given Central China's reputation in Henan region and scalable services ecosystem.

Figure 76: CCNL relied on related parties in property management services…



Source: Company data, AMTD Research

Figure 77: …but we believe the reliance would decline gradually through external cooperation and acquisition



Source: Company data, AMTD Research

For property management companies, acquisition can help them expand revenue-bearing GFA and relatively low acquisition cost can also offer room to boost share price with an average acquisition trailing P/E of 13x (industry average 20E P/E: ~36x).

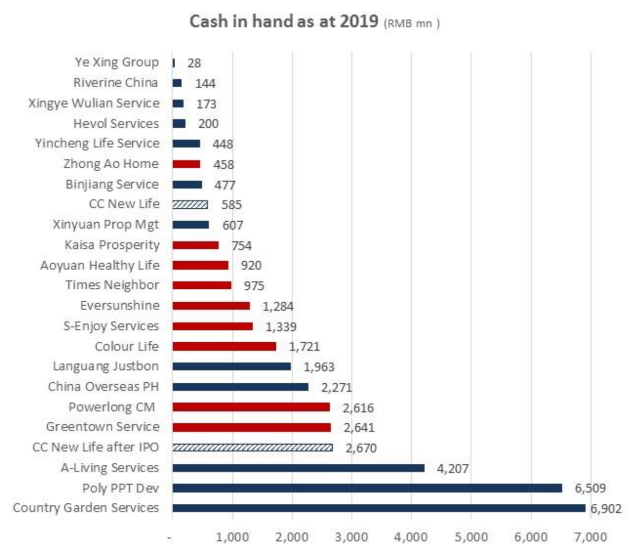
Figure 78: Acquisition in sector since 2019

Ticker	Company	Target	Type	Announcement Date	Acquisition Detail (RMB mn)					
					Consideration	Interest	Valuation	GFA (mn sq.m.)	P/E	base on earning in
3321 HK	A-Living	Harbin Jingyang	Resi&Non-resi	Jan-19	114	60%	190	10	10.5x	2018
3322 HK	A-Living	Qiangdao Huaren	Resi&Non-resi	Jan-19	134	90%	149	6	12.3x	2018
6098 HK	CG Service	Beijing Shengshi	Resi&Non-resi	Mar-19	773	100%	773	NA	9.7x	2018
3320 HK	A-Living	Guangzhou Yuehua	Public building	Mar-19	195	51%	383	30	10.0x	2018
2170 HK	Kaisa Property	Jiaxing Dashu	Resi&Non-resi	Apr-19	37	60%	61	8	11.2x	2018
1996 HK	Ever Sunshine	Qingdao Yayuan	public car park ops, prop mgmt and rental services	Jun-19	462	55%	840	2	24.8x	2018
6098 HK	CG Service	Asia Asset RE	Resi&Non-resi	Jul-19	375	100%	375	13	11.4x	2018
3319 HK	A-Living	CMIG Futurelife	Resi&Non-resi	Sep-19	1560	60%	2600	154	12.5x	2019
2169 HK	Kaisa Property	Jiangsu Hengyuan	Resi&Non-resi	Oct-19	34	51%	67	8	11.5x	2018
2606 HK	Languang Justbon	Zhejiang Zhongneng	Resi&Non-resi	Dec-19	48	60%	80	5#	13.0x	2018
6093 HK	Hevol Service	Shanghai Tongjin	Resi&Non-resi	Dec-19	30	70%	42	4	23.7x	2018
1995 HK	Ever Sunshine	Qingdao Yinshengtai	Resi&Non-resi	Feb-20	9	50%	17	NA	4.7x	2019
1922 HK	Yincheng Life	Nanjing Huiren Hengan	Hospital	Mar-20	46	51%	90	NA	21.2x	2018
9929 HK	Times Neighbor	Guangzhou Haoqing	Resi&Non-resi	Mar-20	33	NA	NA	NA	NA	NA
3663 HK	Aoyuan Healthy	Easy Life	Resi&Non-resi	Apr-20	248	71%	350	23	15.6x	2018
1755 HK	S-Enjoy Service	Chengdu Chengyue Times	Resi&Non-resi	May-20	105	62%	170	5	10.4x	2019
3662 HK	Aoyuan Healthy	Ningbo Hongjian	Resi&Non-resi	May-20	37	65%	57	2*	NA	NA
9928 HK	Times Neighbor	Guangzhou Yaocheng	Power supply system units	May-20	15	100%	15	2	NA	NA
2869 HK	Greentown Service	Zhongao Home	Resi&Non-resi	Jun-20	33	4%	754	72*	5.6x	2019
9928 HK	Times Neighbor	Shanghai Kejian	Industrial logistics	Jun-20	234	51%	459	16	16.1x	2019
2168 HK	Kaisa Property	Ningbo Langtong	NA	Jun-20	27	60%	45	4*	NA	NA
9909 HK	Powerlong CM	Zhejiang Xinghui	Commercial	Jul-20	41	60%	68	1	11.3x	2020

Source: Company data, AMTD Research
Notes: (1) *denotes contracted GFA; (2) #denotes expected GFA under management in 2020

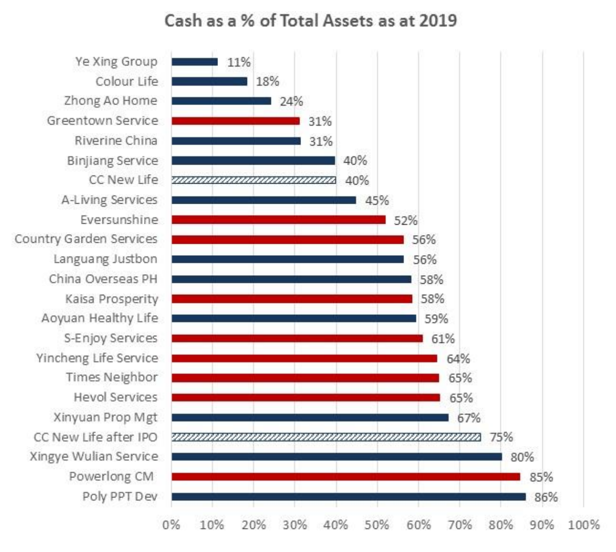
For CCNL, the cash in hand would reach ~RMB2,670mn based on the cash position as at 2019 after adding net proceeds from IPO, as a ~75% of total assets. We believe acquisition would become one of the main drivers of GFA expansion and the third parties would contribute more to topline in the next three years.

Figure 79: Cash in hand as at 2019



Source: Company data, AMTD Research
Red denotes the company announced acquisition events in 2020

Figure 80: Cash as a % of Total Assets as at 2019



Source: Company data, AMTD Research
Red denotes the company announced acquisition events in 2020

Valuation and Risks

DCF Valuation: Dec-20 TP is HK$13.08, implying 34.7x 2020E P/E

Our target price of HK$13.08 is based on the three-stage discounted cash flow model, implying 34.7x 2020E P/E. We use a three-stage DCF model to derive our valuation. In the first stage (the fast growth stage), we forecast explicitly five years of free cash flows to the enterprise. In the second stage (medium-term), the growth rates are gradually phased down to the perpetual growth rate. This cash flow stream is discounted using a 12.5% weighted average cost of capital assumption.

Figure 81: DCF Valuation Breakdown

DCF Fair Value		WACC Buildup	
Stage 1	1,665	Risk-free rate	4.0%
Stage 2	5,639	Beta	1.21
Stage 3	4,735	Equity risk premium	7.0%
Enterprise Value	**12,039**	**Cost-of-equity (%)**	**12.5%**
Net cash	2,858	Tax rate (%)	25%
Minority interest	(12)	Cost of debt	10%
Total equity value (Rmb mn)	**14,885**	**Cost of debt*(1-T)**	**7.5%**
Total equity value (HK$mn)	**16,285**	Debt to Capital ratio (%)	0%
Shares outstanding (mn)	1,245		
Dec-20 Price target (HK$)	**13.08**	**WACC (%)**	**12.5%**
Implied 2020e PE	34.7x		
Implied 2021e PE	31.8x		

Source: Company Data, AMTD Research Estimates

Property management sector is now trading at 36.3x 2020E P/E on average, in line with CCNL. We also believe CCNL would enjoy a valuation premium as its high visibility of earnings growth during 2020E-2022E.

Figure 82: Peers Valuation comparison

Date	23/7/2020	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 Management										
6098 HK	Country Garden Services	44.30	15,769	64.3x	48.6x	37.3x	20.3x	15.1x	11.5x	0.4%
3319 HK	A-Living Services	46.30	7,964	45.8x	32.5x	24.9x	9.1x	7.6x	6.5x	1.1%
6049 HK	Poly PPT Dev	88.70	6,331	66.3x	60.7x	44.3x	8.5x	7.7x	6.9x	0.4%
2869 HK	Greentown Service	10.82	4,490	58.1x	45.6x	35.2x	10.0x	7.0x	6.1x	0.8%
2669 HK	China Overseas PH	8.56	3,629	54.0x	41.0x	32.1x	18.9x	13.9x	10.5x	0.6%
1995 HK	Eversunshine	15.10	3,254	94.2x	58.5x	38.2x	18.4x	11.5x	9.4x	0.4%
1755 HK	S-Enjoy Services	25.00	2,638	66.9x	44.2x	29.9x	20.1x	15.5x	11.6x	0.8%
9983 HK	CC New Life*	10.60	1,702	NA	28.1x	25.8x	NA	15.8x	12.6x	NA
9928 HK	Times Neighbor	13.30	1,691	73.9x	49.8x	28.7x	12.3x	8.3x	6.8x	0.3%
9909 HK	Powerlong CM	20.00	1,603	41.4x	38.9x	26.8x	6.9x	6.0x	5.3x	0.0%
2606 HK	Languang Justbon	53.20	1,222	15.6x	14.5x	10.9x	3.9x	3.3x	2.7x	2.6%
3662 HK	Aoyuan Healthy Life*	8.42	789	29.3x	20.5x	15.2x	6.2x	5.3x	4.6x	1.3%
1778 HK	Colour Life	4.03	756	10.0x	9.6x	8.7x	1.3x	1.2x	1.1x	2.6%
2168 HK	Kaisa Prosperity	36.50	725	28.0x	20.3x	14.7x	7.0x	4.2x	3.6x	1.4%
3316 HK	Binjiang Services	20.05	715	37.5x	31.5x	24.0x	7.0x	NA	NA	1.3%
Total/Average			**53,280**	**49.0x**	**36.3x**	**26.4x**	**10.7x**	**8.7x**	**7.1x**	**1.0%**

Source: Bloomberg Estimates, *AMTD Research Estimates
Note: As of 23rd July 2020

Key Risks

Key risks for the stock include (1) Slower than expected property delivery from reserved projects and less than expected acquisition affect the growth in GFA under management; (2) Cash collection and impairment risk from trade receivables; 3) Businesses with limited operating history don't operate as well as expectations.

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