

Central China Real Estate Limited

Solid 1H20 Results, Earnings Growth On Track

CCRE reported a set of solid 1H20 results, with the developer on track to achieve our 2020E full year earnings estimate. While market may be disappointed in the interim DPS cut, but we believe it is due to a high base effect from an unusually high 48% payout of 2019. Reiterate Buy.

3.5x 2020E P/E for a 28% earnings growth stock, reiterate Buy

We believe that CCRE is on track to achieve our estimated 28% YoY core net profit growth, with 31% of our core net profit achieved during 1H20. We believe the developers' contracted sales quality (cost control and completed inventory control) during 2H20 will be as important as quantity. We believe stringent cost control to manage GP Margins of contracted sales, and inventory control to contain the rising trend of completed inventory, are key to help the developer to generate free cash flows for future growth.

The stock is trading at an attractive valuation of 3.5x 2020E P/E, as we take into account the 28% earnings growth expected for 2020E. Reiterate Buy.

Downside risk to our 2020E DPS, but should still offer over 9% div yield

Interim DPS of CCRE was declared at HK\$0.11/sh, slightly below 1H19's HK\$0.156/sh. While market may be disappointed with the cut, we believe it has to be taken into perspective that the 48% payout ratio of 2019 was unusually high. Under the tougher operating environment amidst COVID-19, management plans to normalize the payout ratio to 30%. There is thus a downside risk to our 2020E DPS estimate, as we have factored in a 40% payout ratio. Nonetheless, on a 30% payout ratio, we believe the stock will still be offering an attractive 9% dividend yield for 2020E.

Asset light business contributed to ~13% of 1H20 gross profits

CCRE's light asset business of project management continues on its growth trajectory, contributing RMB462m to its 1H20 revenues. GP Margins of this business segment is at 87.8% and implies that the Gross Profit has now reached ~RMB405m (13% of 1H20 total gross profit). Unrecognised management fees have surged 60% YoY to RMB3,582m, securing the future growth visibility of this business segment.

Cost and inventory control a priority for the next 1-2 years

CCRE's GP Margins have declined to 23.7% in 1H20, below our full year estimate of 26%. As ASP is difficult to be raised in the current operating environment, we believe that a more stringent construction cost control is required for CCRE to contain the margins decline. Construction cost represents 56.9% of revenue, while land cost only represents 17.7% of revenue during 1H20. Completed Properties Held For Sale has also rose to RMB8.26bn at 1H20 (1H19: RMB4.5bn), but at just 5% of Total Assets, it is still very low compared to industry average. Nonetheless, we believe the developer has to contain the growth trend in completed inventory during contracted sales of 2H20, which will help to free up free cash flow for reinvestment.

Net Debt to Equity rose to 35% as project delivery increases

CCRE's net debt to equity has risen to 35% (2019: 6%), which we believe is attributable to the increase in project deliveries. This is expected in our view, as the developer enters a peak project delivery cycle during 2020E-2021E. Nonetheless, the 35% Net Debt to Equity ratio is still far below industry average and thus is not a major concern.

Stock code: 0832.HK

Rating: Buy

Price target (HK\$)	6.10
Current price (HK\$, 25 Aug 2020)	3.58
Upside/downside %	70%
Market cap (HK\$ m)	10,052
Market cap (US\$ m)	1,297
Avg daily turnover (US\$ m)	1.14

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

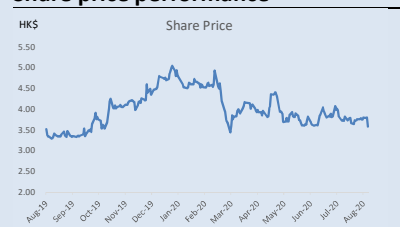
Source: Company data, AMTD Research

Valuation

	2019	2020e	2021e	2022e
P/E	4.5	3.5	2.5	2.4
P/BV	0.9	0.8	0.7	0.6
Div. yield	13.2%	13.6%	16.7%	17.8%
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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Figure 1: Central China Real Estate 1H20 Financial Results Summary

1H FY20 Results (RMB '000)	1H FY20A	FY20E	1H20/20E	1H FY19A	YoY/Chg
Sales of properties	12,364,883	35,093,474	35%	8,393,660	47%
Project management service fee income	462,048	1,227,502	38%	404,296	14%
Hotel operations	92,495	387,118	24%	149,166	-38%
Others	41,954	116,345	36%	42,413	-1%
Rental income	57,478	195,677	29%	78,507	-27%
Total Revenue	13,018,858	37,020,115	35%	9,068,042	44%
Cost of sales	(9,930,084)	(27,387,665)	36%	(6,593,702)	51%
Gross profit	3,088,774	9,632,450	32%	2,474,340	25%
Other revenue	170,131	82,267	207%	124,672	36%
Other net income	522,151	250,316	209%	597,388	-13%
Selling and marketing expenses	(907,309)	(2,110,481)	43%	(751,395)	21%
General and administrative expenses	(822,815)	(1,911,179)	43%	(771,813)	7%
Impairment losses on trade and other receivables, including contract assets	(95,498)	(53,112)	180%	(61,419)	55%
Share of losses of associates	(2,557)	(40,812)	6%	(3,897)	-34%
Share of profits less losses of joint ventures	(41,259)	214,020	-19%	164,617	-125%
Net Finance costs	(369,524)	(458,477)	81%	(230,098)	61%
Profit before change in fair value of investment properties and income tax	1,542,094	5,604,993	28%	1,542,395	0%
Net valuation gain on investment properties	(84,789)	-	N/A	20,420	-515%
Profit before tax	1,457,305	5,604,993	26%	1,562,815	-7%
Income tax expense	(671,148)	(2,610,401)	26%	(794,526)	-16%
Net profit	786,157	2,994,591	26%	768,289	2%
Owners of the Company	726,982	2,498,132	29%	657,720	11%
Non-controlling interests	59,175	496,459	12%	110,569	-46%
Core Net Profit	785,787	2,498,132	31%	644,609	22%
Key Ratios					
GP Margins	23.7%	26.0%		27.3%	-3.6ppt
Core Net Margins	6.0%	6.7%		7.1%	-1.1ppt
	1H FY20A	FY20E		FY19A	YoY/Chg
Net debt to total equity ratio (with restricted cash)	35%	5%		6%	29.2ppt
Net debt to total equity ratio (without restricted cash)	77%	61%		64%	12.7ppt
Total Assets to Total Equity	12.5x	11.8x		11.4x	1.1x

Source: Company data, AMTD Research Estimates

Figure 2: China Property Developers: Peers Valuation comparison

Date	26/8/2020	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	25.40	44,417	6.8x	6.0x	5.4x	1.4x	1.2x	1.0x	4.7%
1109 HK	CR Land	36.45	33,538	8.1x	9.5x	8.3x	1.4x	1.2x	1.1x	3.3%
688 HK	COLI	23.20	32,796	5.6x	6.0x	5.2x	0.8x	0.8x	0.7x	4.5%
960 HK	Longfor	40.45	31,307	13.9x	11.5x	9.7x	2.3x	2.1x	1.8x	3.4%
3333 HK	Evergrande	18.54	31,244	13.0x	6.9x	5.8x	1.5x	1.3x	1.2x	4.0%
2007 HK	Country Garden	10.02	28,489	4.9x	4.6x	4.0x	1.3x	1.1x	0.9x	6.5%
1918 HK	Sunac	34.30	20,629	6.6x	4.7x	3.8x	1.7x	1.3x	1.0x	4.1%
813 HK	Shimao	37.50	17,117	10.3x	9.2x	7.6x	1.7x	1.5x	1.3x	4.4%
3380 HK	Logan	14.98	10,668	7.5x	6.0x	5.0x	2.4x	1.8x	1.5x	6.3%
884 HK	CIFI	6.75	7,158	8.6x	5.9x	4.9x	1.6x	1.3x	1.1x	5.2%
1813 HK	KWG	15.22	6,241	4.8x	6.8x	5.5x	1.2x	1.1x	0.9x	5.5%
1030 HK	Seazen	7.27	5,825	5.8x	4.8x	4.1x	1.6x	1.2x	1.0x	4.8%
3383 HK	Agile	11.10	5,610	5.8x	4.7x	4.4x	0.9x	0.7x	0.7x	9.4%
2777 HK	R&F	10.00	4,510	3.0x	3.1x	2.8x	0.4x	0.4x	0.3x	14.5%
3883 HK	Aoyuan*	9.32	3,250	5.5x	3.6x	3.2x	1.5x	1.2x	1.0x	6.6%
3990 HK	Midea RE	19.72	3,131	5.4x	4.2x	3.4x	1.1x	0.9x	0.8x	9.2%
1238 HK	Powerlong*	5.82	3,111	8.0x	5.4x	4.4x	0.7x	0.6x	0.6x	7.0%
1638 HK	Kaisa	3.94	3,109	8.5x	4.1x	3.3x	0.8x	0.7x	0.6x	2.9%
123 HK	Yuexiu	1.55	3,096	5.8x	5.3x	4.5x	0.5x	0.5x	0.5x	6.7%
1233 HK	Times	12.06	3,022	3.8x	3.5x	3.0x	1.1x	0.9x	0.7x	7.9%
3900 HK	Greentown	9.39	3,022	8.0x	6.9x	6.5x	0.7x	0.7x	0.6x	3.6%
6158 HK	Zhenro	4.72	2,660	7.4x	6.2x	4.9x	1.1x	1.0x	0.9x	2.4%
1628 HK	Yuzhou*	3.65	2,610	4.8x	4.6x	3.2x	0.8x	0.7x	0.6x	11.3%
2772 HK	Zhongliang	5.15	2,380	4.0x	3.6x	3.0x	1.9x	1.3x	1.0x	19.2%
1966 HK	China SCE	4.15	2,250	5.2x	4.6x	3.7x	0.9x	0.8x	0.7x	5.8%
95 HK	Lvgem*	3.01	1,978	11.0x	8.2x	7.9x	1.1x	1.0x	0.9x	2.0%
3301 HK	Ronshine	7.15	1,571	3.5x	2.9x	2.4x	0.7x	0.6x	0.5x	5.1%
832 HK	CCRE*	3.58	1,297	4.5x	3.5x	2.5x	0.9x	0.8x	0.7x	13.2%
119 HK	Poly Prop	2.50	1,181	2.7x	3.1x	2.6x	0.3x	0.3x	0.2x	8.4%
272 HK	Shui On Land	1.13	1,175	5.1x	NA	NA	0.2x	0.2x	NA	11.0%
1996 HK	Redsun*	2.70	1,157	6.5x	4.6x	3.9x	0.6x	0.5x	0.5x	4.6%
2019 HK	Dexin China	3.06	1,067	4.6x	4.3x	3.5x	1.5x	NA	NA	3.0%
1098 HK	Roadking	10.42	1,007	2.7x	NA	NA	0.4x	NA	NA	11.3%
6111 HK	Dafa*	5.32	568	8.4x	7.9x	7.5x	1.2x	1.1x	1.0x	3.0%
230 HK	Minmetals*	0.96	415	3.9x	4.9x	3.5x	0.3x	0.3x	0.3x	8.3%
Total/Average			322,605	6.4x	5.5x	4.6x	1.1x	0.9x	0.8x	6.7%

Source: Bloomberg Estimates, *AMTD Research Estimates for AMTD Coverage Stocks

Note: As of 26 Aug 2020

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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

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