

# Central China New Life Limited

## Geographical Focus to Drive Outperformance

**We believe CCNL's geographical focus in a single province (Henan) will offer them a competitive edge to outpace its peers in long term growth through Lifestyle and Value Added Services. We raise our 2020E-2022E net profit by 4-5% and Target Price by 4% on the back of a stronger than expected 1H20 results. Maintain Buy.**

**We raise our Target Price by 4% on stronger than expected GP Margins**  
On the back of a strong set of 1H20 results, we have raised our 2020E-2022E net profit estimates by 4-5% and our DCF-based Target Price by 4% to HK\$13.56/sh. Our new Target Price implies a 2021E P/E of 31.6x, and offers 23% upside to current share price. 1H20 Gross Profit Margins were slightly stronger than our expectations at 34.6%, and we have thus raised our 2020E GP Margins slightly from 32.1% to 32.8%.

### Single Province Strategy continues to underpin VAS growth

CCNL's revenues from Value-added Services grew by 71% YoY, while Lifestyle Services grew by 52% YoY, both of which outpaces the pure property management revenues of 47% YoY. As the company distinctively focuses mostly in Henan Province, it has built up a localized community within the Province allowing it to easily offer various Lifestyle and Various Services to their customers. We believe this will be a key driver in the stock's outperformance compared to its property management peers.

### GFA Under Management grew 68% YoY to reach 70.1m sqm

CCNL's GFA Under Management has grown 68% YoY to reach 70.1m sqm, slightly ahead of our expectations. In particularly, ~29% of the GFA Under Management come from third party projects, stable from 2019 levels. We expect this demonstrates the value of the Central China brand name in Henan Province and its ability to attract third-party projects in addition to reliance on sister company Central China Real Estate. We believe such a brand value will continue to underpin the company's revenue growth and drive the valuations of CCNL higher.

### A RMB2.7bn war chest available to drive potential upside surprises

Following the company's recent IPO in May 2020, the company has now built up a war chest of RMB2.7bn cash balance which can be utilized to drive its earnings growth further. We expect the company to utilize ~RMB600-800m of such proceeds in M&A. We also believe the company will be looking into not only the typical property management companies, but also companies which can potentially offer professional services to CCNL's community, e.g. Advertising, Lift Management, Rubbish Disposal/Recycle Companies, etc. The target should be companies which can add value and offer synergies to their existing businesses, in our view.

### Stock is trading at 28.1x 2020E P/E

We believe the stock is currently trading at attractive valuations of 28.1x 2020E P/E, compared to the industry average of 34x 2020E P/E. Considering the strong growth potential and higher market ceiling from the Lifestyle and Value-added services, we believe the stock should trade at a premium to the industry average. We thus have a new target price of HK\$13.56/sh which implies a 2021E P/E of 31.6x.

**Key risks:** (1) Slower than expected expansion in Lifestyle and Value Added Services; (2) GFA under management growth slower than expected; (3) Property management fees lower than expected.

Stock code: 9983.HK

Rating: Buy

<b>Price target (HK\$)</b>	<b>13.56</b>
Previous price target (HK\$)	13.08
Current price (HK\$, 28 Aug 2020)	11.00
Upside/downside %	23%
Market cap (HK\$ m)	13,695
Market cap (US\$ m)	1,767
Avg daily turnover (US\$ m)	10.41

Source: Bloomberg, AMTD Research

### Key forecasts

(RMBm)	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	860	1,148	1,430
yoy %	258.6%	49.3%	33.4%	24.6%
Core Net Profit	243	366	488	606
yoy %	NA	50.7%	33.2%	24.1%
Gross margin	32.8%	32.8%	32.3%	32.0%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash
EPS	NA	0.36	0.39	0.49
DPS	NA	0.11	0.12	0.15
BPS	NA	2.14	2.41	2.75

Source: Company data, AMTD Research

### Valuation

	2019	2020e	2021e	2022e
P/E	NA	28.1	25.6	20.7
P/BV	NA	4.7	4.2	3.7
Div. yield	NA	0.9%	1.0%	1.2%
ROE	63.3%	13.8%	16.3%	17.7%
ROA	16.0%	9.8%	11.9%	13.4%

Source: Bloomberg, AMTD Research

### Share price performance



Source: Bloomberg

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Figure 1: Central China New Life 1H20 Financial Results Summary

1HFY20 Results (RMB '000)	1HFY20A	1HFY19A	YoY/Chg
Property management	387,685	263,207	47%
Value-added services	456,093	266,322	71%
Lifestyle services	172,801	113,999	52%
Commercial property management and consultation services	44,607	36,491	22%
<b>Revenue</b>	<b>1,061,186</b>	<b>680,019</b>	<b>56%</b>
Cost of sales	(693,676)	(438,206)	58%
<b>Gross profit</b>	<b>367,510</b>	<b>241,813</b>	<b>52%</b>
Selling and marketing expenses	(22,551)	(14,687)	54%
Administrative expenses	(112,076)	(89,381)	25%
Net impairment losses on financial assets	(855)	(1,299)	-34%
Other income	6,504	15,852	-59%
Other gains—net	1,052	3,754	-72%
<b>Operating profit</b>	<b>239,584</b>	<b>156,052</b>	<b>54%</b>
Finance cost—net	833	(16,639)	-105%
Share of net (loss)/profit of an associate accounted for using the equity method	19	-	N/A
<b>Profit before income tax</b>	<b>240,436</b>	<b>139,413</b>	<b>72%</b>
Income tax expenses	(51,471)	(35,751)	44%
<b>Profit from continuing operations</b>	<b>188,965</b>	<b>103,662</b>	<b>82%</b>
Loss from discontinued operation	-	(5,054)	-100%
<b>Profit/(loss) for the year</b>	<b>188,965</b>	<b>98,608</b>	<b>92%</b>
Owners of the Company	183,814	107,917	70%
Non-controlling interests	5,151	(9,309)	-155%
<b>Core attributable NP</b>	<b>184,438</b>	<b>118,663</b>	<b>55%</b>
<b>Key Ratios</b>			
GP Margins	34.6%	35.6%	-0.9ppt
Selling and marketing expenses as % of revenue	2.1%	2.2%	0.0ppt
Administrative expenses as % of revenue	10.6%	13.1%	-2.6ppt
Core Net Margins	17.4%	17.4%	-0.1ppt
	<b>1HFY20A</b>	<b>FY19A</b>	<b>YoY/Chg</b>
Net Debt to Equity	Net Cash	Net Cash	N/A
Total Assets to Total Equity	1.5x	3.8x	-2.4x

Source: Company data, AMTD Research Estimates

Figure 2: What's Changed?

	New	Old	Change
Target Price(HK\$/sh)	13.56	13.08	4%
2020E Net Profit(RMBm)	366	353	4%
2021E Net Profit(RMBm)	488	468	4%
2022E Net Profit(RMBm)	606	580	5%
2020E EPS(RMB)	0.36	0.34	4%
2021E EPS(RMB)	0.39	0.38	4%
2022E EPS(RMB)	0.49	0.47	5%

Source: Company data, AMTD Research Estimates

Figure 3: China Property Management: Peers Valuation comparison

Date	28/8/2020	Share Price	Mkt cap	P/E			P/B			Div. yield
Ticker	Name(EN)	(HK\$)	(USD mn)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19
<b>China Property Management</b>										
6098 HK	Country Garden Services	55.50	19,760	80.5x	56.8x	40.3x	25.5x	18.4x	13.5x	0.3%
3319 HK	A-Living Services	40.55	6,976	40.1x	28.3x	21.5x	7.9x	6.7x	5.7x	1.3%
6049 HK	Poly PPT Dev	69.80	4,983	52.2x	48.7x	36.0x	6.7x	6.1x	5.4x	0.5%
2869 HK	Greentown Service	10.40	4,317	55.9x	43.0x	33.7x	9.6x	6.0x	5.4x	0.8%
1995 HK	Eversunshine	16.20	3,492	101.1x	61.7x	40.0x	19.7x	12.2x	10.0x	0.3%
2669 HK	China Overseas PH	7.09	3,007	44.7x	34.7x	27.2x	15.7x	11.7x	8.9x	0.7%
1755 HK	S-Enjoy Services	24.70	2,607	66.1x	42.9x	28.9x	19.9x	14.9x	11.2x	0.8%
9909 HK	Powerlong CM	25.05	2,009	51.8x	48.0x	33.1x	8.6x	7.6x	6.6x	0.0%
9983 HK	CC New Life*	11.00	1,767	NA	28.1x	25.6x	NA	4.7x	4.2x	NA
9928 HK	Times Neighbor	11.38	1,447	63.2x	42.4x	24.7x	10.5x	6.8x	5.7x	0.3%
2606 HK	Languang Justbon	50.35	1,157	14.8x	13.6x	10.3x	3.7x	3.2x	2.6x	2.7%
6958 HK	Zhenro Services	6.44	862	NA	28.6x	20.2x	NA	NA	NA	0.0%
1778 HK	Colour Life	4.00	751	10.0x	9.5x	8.8x	1.3x	1.2x	1.1x	2.6%
3662 HK	Aoyuan Healthy Life*	7.09	664	24.7x	17.2x	12.8x	5.2x	4.4x	3.9x	1.5%
3316 HK	Binjiang Services	18.50	660	34.6x	29.0x	22.2x	6.4x	NA	NA	1.4%
2168 HK	Kaisa Prosperity	28.40	564	21.8x	15.8x	11.4x	5.4x	3.3x	2.8x	1.9%
1971 HK	Redsun Services	6.61	354	NA	32.2x	16.7x	NA	4.0x	3.4x	0.0%
<b>Total/Average</b>			<b>55,378</b>	<b>47.3x</b>	<b>34.1x</b>	<b>24.3x</b>	<b>10.4x</b>	<b>7.4x</b>	<b>6.0x</b>	<b>0.9%</b>

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

Note: As of 28 Aug 2020

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**IMPORTANT DISCLOSURES**


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**AMTD Investment Ratings****Stock Rating**

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

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AMTD Global Markets Limited has an investment banking relationship with Central China Real Estate and/or their affiliate(s) within the past 12 months.

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