

Central China Real Estate Limited

A New CEO, A New Dawn

We maintain our Buy Rating on CCRE, as we believe the stock remains undervalued, with the stock offering 10.5% div yield. We believe the completion of the spin-off of Central China Management Company will be a positive catalyst to the stock. Maintain Buy.

Stock offering 10.5% div yield amid depressed valuations, Maintain Buy

We believe CCRE has been trading at depressed valuations amid long standing concerns with its geographical concentration in Henan Province. We believe the stock is undervalued, which can be seen through its 2.4x 2021E P/E and thus offering a 10.5% div yield despite achieving a 28.7% YoY growth in its 2020 core net profit. While we see downside risks to our 2021E-2022E earnings estimates amid the lower than expected GP Margins, we nonetheless believe the stock's deep valuation is still unwarranted as the dividend declared reflects the developers' cash flow earnings. Completion of the announced spin-off of Central China Management Company will be a key catalyst to re-rate the stock, in our view.

Mr. Wang Jun appointed as new Chief Executive Officer

Together with the results announcement, the appointment of Mr. Wang Jun as the new CEO of the company. He takes over from Mr. Yuan Xujun, who will continue to stay on as Executive Director focusing on development strategies of the Group. We believe this is a succession plan for the long term development of the company. CCRE has been one of the early adopters of professional senior management among the China Property Developers to assist Chairman Mr. Wu Po Sum in the day to day management of the company. We expect a smooth transition as Mr. Wang Jun has already been an Executive Director of CCRE for the past 3 years. He is also the Chairman and CEO of Central China New Life (9983.HK).

2020 Core Net Profit grew 28.7% YoY despite GP Margins disappoint

CCRE's 2020 core net profit came in at RMB2,414m (AMTD: 2,498m), in-line with our expectations. Gross Profit Margins was below our expectations, at only 19.9%, but it was offset by a higher than expected revenues recognized. Revenues grew 40.8% YoY to RMB43,304m, 17% above our estimate. The company declared a Final DPS of HK\$0.268/sh, bringing the Full Year DPS to HK\$0.378/sh, implying a 10.5% div yield on current valuation.

March contracted sales marking a strong rebound

Contracted sales weakness since 2020 (down 4.8% YoY) has also been another key investor concern as it has been affected by COVID-19 due to tight measures implemented in Henan Province to contain the virus. There are signs of turning around with March Heavy Assets contracted sales rising 28.4% YoY to RMB8.4bn. A 15% contracted sales growth in 2021E will be a challenging task, in our view, due to the slow start to the year with YTD contracted sales at RMB10,762m (+0.2% YoY).

Strong Balance Sheet

CCRE's balance sheet strength remained despite the weaker than expected contracted sales in 2020. We calculate that 2020 Net Debt to Equity was at 14%, while Total Assets excl. Contract Liabilities was at 86% and Cash to Short Term Debt ratio at 1.48.

Key Risks: (1) Weak contracted sales; and (2) Lower GP Margins.

Stock code: 0832.HK

Rating: Buy

| | |
|----------------------------------|-------------|
| Price target (HK\$) | 6.10 |
| Current price (HK\$, 1 Apr 2021) | 3.60 |
| Upside/downside % | 69% |
| Market cap (HK\$ m) | 10,590 |
| Market cap (US\$ m) | 1,362 |
| Avg daily turnover (US\$ m) | 2.06 |

Source: Bloomberg, AMTD Research

Key forecasts

| (RMBm) | 2019 | 2020 | 2021e | 2022e |
|-----------------|--------|--------|--------|--------|
| Revenue | 30,767 | 43,304 | 45,349 | 47,963 |
| yoy % | 108.1% | 40.8% | 4.7% | 5.8% |
| Gross Profit | 8,005 | 8,596 | 11,800 | 12,480 |
| yoy % | 57.2% | 7.4% | 37.3% | 5.8% |
| Core Net Profit | 1,876 | 2,414 | 3,508 | 3,731 |
| yoy % | 149.7% | 28.7% | 45.3% | 6.4% |
| Gross margin | 26.0% | 19.9% | 26.0% | 26.0% |
| Net gearing | 5.6% | 13.6% | 20.1% | 18.0% |
| EPS | 0.72 | 0.87 | 1.28 | 1.37 |
| DPS | 0.43 | 0.32 | 0.54 | 0.57 |
| BPS | 3.56 | 4.03 | 4.78 | 5.57 |

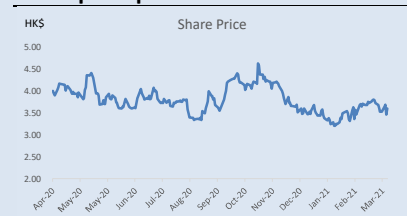
Source: Company data, AMTD Research

Valuation

| | 2019 | 2020 | 2021e | 2022e |
|------------|-------|-------|-------|-------|
| P/E | 4.2 | 3.5 | 2.4 | 2.2 |
| P/BV | 0.9 | 0.7 | 0.6 | 0.5 |
| Div. yield | 14.1% | 10.5% | 17.8% | 18.9% |
| 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: CCRE FY20 Financial Results Summary

| FY20 Results (RMB '000) | FY20A | FY20E | Diff (%) | FY19A | YoY/Chg |
|---|-------------------|-------------------|-------------|-------------------|----------------|
| Sales of properties | 41,606,820 | 35,093,474 | 19% | 29,161,164 | 43% |
| Project management service fee income | 1,120,782 | 1,227,502 | -9% | 1,022,918 | 10% |
| Hotel operations | 265,866 | 387,118 | -31% | 322,598 | -18% |
| Others | 172,547 | 116,345 | 48% | 96,954 | 78% |
| Rental income | 138,402 | 195,677 | -29% | 163,064 | -15% |
| Total Revenue | 43,304,417 | 37,020,115 | 17% | 30,766,698 | 41% |
| Cost of sales | (34,708,373) | (27,387,665) | 27% | (22,761,356) | 52% |
| Gross profit | 8,596,044 | 9,632,450 | -11% | 8,005,342 | 7% |
| Other revenue | 396,031 | 82,267 | 381% | 262,766 | 51% |
| Other net income | 649,894 | 250,316 | 160% | 799,256 | -19% |
| Selling and marketing expenses | (1,870,867) | (2,110,481) | -11% | (1,901,334) | -2% |
| General and administrative expenses | (1,746,011) | (1,911,179) | -9% | (1,721,783) | 1% |
| Impairment losses on trade and other receivables, including contract assets | (273,493) | (53,112) | 415% | (169,642) | 61% |
| Share of losses of associates | 25,030 | (40,812) | -161% | (33,918) | -174% |
| Share of profits less losses of joint ventures | 337,117 | 214,020 | 58% | 177,868 | 90% |
| Net Finance costs | (1,271,834) | (458,477) | 177% | (395,249) | 222% |
| Profit before change in fair value of investment properties and income tax | 4,841,911 | 5,604,993 | -14% | 5,023,306 | -4% |
| Net valuation gain on investment properties | 93,356 | - | NA | 92,773 | 1% |
| Profit before tax | 4,935,267 | 5,604,993 | -12% | 5,116,079 | -4% |
| Income tax expense | (2,833,706) | (2,610,401) | 9% | (2,700,827) | 5% |
| Net profit | 2,101,561 | 2,994,591 | -30% | 2,415,252 | -13% |
| Owners of the Company | 1,801,508 | 2,498,132 | -28% | 2,015,064 | -11% |
| Non-controlling interests | 300,053 | 496,459 | -40% | 400,458 | -25% |
| Core Net Profit | 2,414,000 | 2,498,132 | -3% | 1,875,680 | 29% |
| Key Ratios | | | | | |
| GP Margins | 19.9% | 26.0% | | 26.0% | -6.2ppt |
| Core Net Margins | 5.6% | 6.7% | | 6.1% | -0.5ppt |
| | FY20A | FY20E | | FY19A | YoY/Chg |
| Net debt to total equity ratio (with restricted cash) | 14% | 5% | | 6% | 8.0ppt |
| Net debt to total equity ratio (without restricted cash) | 60% | 77% | | 70% | -10.1ppt |
| Total Assets to Total Equity | 11.2x | 11.8x | | 11.4x | -0.2x |

Source: Company data, AMTD Research Estimates

IMPORTANT DISCLOSURES

AMTD Investment Ratings**Stock Rating**

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

Analyst Certification

I, Jacky Chan hereby certify that (i) all of the views expressed in this research report reflect accurately our personal views about the subject company or companies and its or their securities; and (ii) no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this research report, nor is it tied to any specific investment banking transactions performed by AMTD Global Markets Limited.

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