

## Central China Real Estate Limited

### Post Spin-Off Trading offers Buying Opportunity

We reiterate our Buy Rating on CCRE following the ex-Div of the company's CCMGT Spin-Off. We believe market is in the process of unlocking the deep value in CCRE through the post spin-off trading, offering investors a buying opportunity. Our post spin-off Target Price of CCRE is at HK\$3.85/sh, offering 68% upside.

#### Post Spin-Off valuation trading at only 2.2x 2021E P/E, Reiterate Buy

We believe the value of CCRE is in the process of being unlocked through the ex-Div trading of CCRE's shares. The spin-off has attracted market's attention on the stock, in our view, as it is trading at only 2.2x FY2021E P/E post spin-off. We believe the stock will trade back up towards a normalized 4.0x FY2021E P/E. Based on this as our Target P/E valuation multiple, our new Target Price is valued at HK\$3.85/sh (from HK\$6.1/sh), offering 68% upside from current levels. Our new FY2021E core net profit is at RMB2,407m (from RMB3,508m), after adjusting for the profit contributions from CCMGT and a lower GP Margins than original expected in its unrecognized sales.

#### Asset-light business Central China Management Company spun-off

12 May 2021 was the last trading date in which qualifying CCRE shareholders will be entitled to one share of CCMGT for one CCRE shares, implying that CCRE shareholders will hold the same proportionate interests in CCMC as they hold in CCRE. On 13 May 2021, CCRE shares closed at HK\$2.29/sh (HK\$4.25/sh on 12 May 2021), with a market cap of HK\$6.7bn. According to the CCMGT announcement, the spin-off unit generated a RMB680m profit in 2020.

#### Stock undervalued despite contracted sales remaining a concern

We believe the stock has divided investors, amid the deep value hidden in the CCMGT, while contracted sales has been weak compared to its peers since COVID-19 hit the world last year. April YTD contracted sales was down 13% YoY to achieve only RMB13.96bn, while the listed developers' average is up 55% YTD. We believe the developer faces an uphill battle to achieve its RMB80bn contracted sales target with the current YTD April run-rate at only 17.5% (Industry average: 28.7%).

#### New Target Price based on a 4.0x FY2021E P/E, offering 68% upside

We have adjusted downwards our FY2021E-FY2022E Net Profit by 30-31% to factor in the profit contributions from the CCMGT business. We have also lowered our Target 2021E P/E Valuation Multiple to 4.0x P/E (from 6.0x) to reflect the post-spin off heavy asset business, as well as sluggish contracted sales YTD. Our New Target Price is at HK\$3.85/sh, offering 68% upside to the current share price.

**Key Risks:** (1) Weak contracted sales resulting in tight cash flows; and (2) Lower than expected GP Margins.

Stock code: 0832.HK

Rating: Buy

<b>Price target (HK\$)</b>	<b>3.85</b>
Previous price target (HK\$)	6.10
Current price (HK\$, 13 May 2021)	2.29
Upside/downside %	68%
Market cap (HK\$ m)	5,786
Market cap (US\$ m)	745
Avg daily turnover (US\$ m)	3.15

Source: Bloomberg, AMTD Research

#### Key forecasts

(RMBm)	2020	2021e	2022e	2023e
Revenue	43,304	52,276	58,106	61,136
yoy %	40.8%	20.7%	11.2%	5.2%
Gross Profit	8,596	8,887	9,587	10,087
yoy %	7.4%	3.4%	7.9%	5.2%
Core Net Profit	2,414	2,407	2,619	2,751
yoy %	28.7%	-0.3%	8.8%	5.1%
Gross margin	19.9%	17.0%	16.5%	16.5%
Net gearing	13.6%	22.2%	31.9%	32.3%
EPS	0.87	0.86	0.94	0.99
DPS	0.34	0.35	0.38	0.40
BPS	4.09	4.60	5.15	5.74

Source: Company data, AMTD Research

#### Valuation

	2020	2021e	2022e	2023e
P/E	2.2	2.2	2.0	1.9
P/BV	0.5	0.4	0.4	0.3
Div. yield	18.0%	18.7%	20.3%	21.3%
ROE	21.2%	18.8%	18.3%	17.2%
ROA	1.5%	1.3%	1.3%	1.3%

Source: Bloomberg, AMTD Research

#### Share price performance



Source: Bloomberg

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#### 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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