

## Central China New Life Limited

### Rise in Third-Party Projects to Underpin Future Growth

We reiterate our Buy rating on Central China New Life, as we believe the stock is on track to achieve our ~47% YoY earnings growth estimate. Recent sell-off offers an attractive entry point, in our view, as it is now trading at attractive valuations of 11.5x 2021E P/E (Industry Average: 21x).

#### A ~47% growth stock trading at 11.5x 2021E P/E, reiterate Buy

We believe Central China New Life is on track to achieve our full year earnings growth estimate of 46.5% YoY, after the company reported a solid set of 1H21 results. At 11.5x 2021E P/E, we believe market's recent sell-off of the stock offers an attractive entry point. Property Management and related value-added services will remain as the key growth drivers of the company, after reporting a 52% YoY increase in this segment during 1H21. Recent flooding in Henan may result in additional CAPEX and construction delays of 1-3 months at selected property projects, but we estimate the impact to be minimal at ~RMB10-20m. This could be offset by subsequent growth opportunities, in our view.

#### 38% of our full year estimate completed in 1H21

Central China New Life's 1H21 revenue came in at RMB1,564m with core net profit of RMB267m, marking a YoY increase of 47% and 45% respectively. The 1H21 revenue implies 38% of our full-year estimate, which we believe is in-line with our expectations considering its high growth profile. Revenue growth in lifestyle services has been slightly below our expectations at only 19% YoY, but it was offset by better than expected profitability overall. 1H21 GP Margins and Core Net Margins came in at 32.1% and 17.1% respectively, higher than our expectations of 30.4% and 15.5%, respectively.

#### Trade Receivables improved as Third-Party contributions rise

We believe Central China New Life's revenue quality has improved, considering that the 1H21 Trade Receivables has declined to RMB1.17bn (2H20: RMB1.2bn). In particular, Trade Receivables attrib. to Related Parties has declined to 56% (2H20: 72%), reflecting the decreasing reliance on connected party transactions and the increased contribution from third-party projects. 48% of GFA Under Management are now third-party developers' projects, rising from 29% of 1H20. We expect third-party project contributions to continue to rise as 57% of CCNL's Contracted GFA are from third-party projects, in our view.

#### Minimal impact by recent flooding in Henan, full year estimate intact

We estimate that the recent flooding events in Henan Province will have minimal impact on the overall performance of 2021E. We estimate a RMB10-20m of impact amid additional CAPEX required and project construction delays, but we believe it will be offset by potential growth opportunities. As with post-COVID period, we believe that such events will see the quality of property management services shine through, and the brand value will be recognized by potential homeowners. This should drive future growth opportunities, in our view.

#### Stock trading at attractive valuations of 11.5x 2021E P/E

We believe there is deep value in small-cap property management companies such as CCNL. The stock is trading at a deeply discounted valuations of 11.5x 2021E P/E, which we believe is unwarranted considering it is on track to deliver a 47% earnings growth.

**Key Risks:** (1) Lower than expected growth in property management revenue; (2) weaker than expected profitability in third-party projects.

Stock code: 9983.HK

Rating: Buy

Price target (HK\$)	11.94
Current price (HK\$, 12 Aug 2021)	6.48
Upside/downside %	84%
Market cap (HK\$ m)	8,229
Market cap (US\$ m)	1,058
Avg daily turnover (US\$ m)	3.25

Source: Bloomberg, AMTD Research

#### Key forecasts

(RMB m)	2020	2021e	2022e	2023e
Revenue	2,654	4,133	5,134	6,143
yoy %	51.3%	55.7%	24.2%	19.6%
Gross Profit	861	1,258	1,546	1,848
yoy %	49.4%	46.2%	22.9%	19.5%
Core NP	438	641	820	1,024
yoy %	80.0%	46.5%	27.9%	24.8%
Gross margin	32.4%	30.4%	30.1%	30.1%
Net gearing	Net Cash	Net Cash	Net Cash	Net Cash
EPS	0.39	0.51	0.66	0.82
DPS	0.17	0.15	0.20	0.25
BPS	2.18	2.53	2.97	3.52

Source: Company data, AMTD Research

#### Valuation

	2020	2021e	2022e	2022e
P/E	15.1	11.5	9.0	7.2
P/BV	2.7	2.3	2.0	1.7
Div. yield	2.9%	2.6%	3.3%	4.2%
ROE	15.9%	20.0%	21.7%	22.8%
ROA	10.0%	13.3%	15.3%	16.8%

Source: Bloomberg, AMTD Research

#### Share price performance



Source: Bloomberg

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**Figure 1: Central China New Life 1H21 Results Summary**

<b>1HFY21 Results (RMB '000)</b>	<b>1HFY21A</b>	<b>FY21E</b>	<b>% of FY21E</b>	<b>1HFY20A</b>	<b>YoY/Chg</b>
Property Management and Value-added Services	1,286,090	3,305,955	39%	843,778	52%
Lifestyle services	206,025	719,417	29%	172,801	19%
Commercial property management and consultation services	71,712	107,492	67%	44,607	61%
<b>Revenue</b>	<b>1,563,827</b>	<b>4,132,865</b>	<b>38%</b>	<b>1,061,186</b>	<b>47%</b>
Cost of sales	(1,062,024)	(2,874,801)	37%	(693,676)	53%
<b>Gross profit</b>	<b>501,803</b>	<b>1,258,064</b>	<b>40%</b>	<b>367,510</b>	<b>37%</b>
Selling and marketing expenses	(25,825)	(82,391)	31%	(22,551)	15%
Administrative expenses	(145,772)	(371,958)	39%	(112,076)	30%
Net impairment losses on financial assets	(9,902)	(23,756)	42%	(855)	1058%
Other income	18,480	27,319	68%	6,504	184%
Other gains—net	(410)	10,192	-4%	1,052	-139%
<b>Operating profit</b>	<b>338,374</b>	<b>817,470</b>	<b>41%</b>	<b>239,584</b>	<b>41%</b>
Finance cost—net	6,128	13,643	45%	833	636%
Share of net (loss)/profit of an associate accounted for using the equity method	(120)	(1)	12000%	19	-732%
<b>Profit before income tax</b>	<b>344,382</b>	<b>831,112</b>	<b>41%</b>	<b>240,436</b>	<b>43%</b>
Income tax expenses	(73,611)	(207,778)	35%	(51,471)	43%
<b>Profit from continuing operations</b>	<b>270,771</b>	<b>623,334</b>	<b>43%</b>	<b>188,965</b>	<b>43%</b>
Loss from discontinued operation	-	-	N/A	-	N/A
<b>Profit/(loss) for the year</b>	<b>270,771</b>	<b>623,334</b>	<b>43%</b>	<b>188,965</b>	<b>43%</b>
Owners of the Company	260,168	623,334	42%	183,814	42%
Non-controlling interests	10,603	-	N/A	5,151	106%
<b>Core attributable NP</b>	<b>267,304</b>	<b>641,151</b>	<b>42%</b>	<b>184,438</b>	<b>45%</b>
<b>Key Ratios</b>					
GP Margin	32.1%	30.4%		34.6%	-2.5ppt
Selling and marketing expenses as % of revenue	1.7%	2.0%		2.1%	-0.5ppt
Administrative expenses as % of revenue	9.3%	9.0%		10.6%	-1.2ppt
Core Net Margin	17.1%	15.5%		17.4%	-0.3ppt
	<b>1HFY21A</b>	<b>FY21E</b>		<b>1HFY20A</b>	<b>YoY/Chg</b>
Net Debt to Equity	Net Cash	Net Cash		Net Cash	N/A

Source: Company data, AMTD Research Estimates

Figure 2: China Property Management: Peers Valuation Comparison

Date	12/8/2021	Share Price	Mkt cap	P/E			P/B			Div. yield
Ticker	Name(EN)	(HK\$)	(USD mn)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20
<b>China Property Management</b>										
6098 HK	Country Garden Services	62.65	25,982	55.5x	38.4x	26.0x	10.6x	7.9x	6.4x	0.4%
1209.HK	China Res Mixc	44.40	13,024	81.4x	57.1x	41.4x	6.8x	6.2x	5.7x	0.5%
6666 HK	Evergrande Services	6.85	9,517	23.7x	14.8x	10.1x	6.3x	4.5x	3.3x	0.0%
1516.HK	Sunac Services	22.20	8,846	78.9x	44.9x	28.0x	6.0x	5.4x	4.7x	0.3%
873 HK	Shimao Services	19.28	5,857	50.4x	29.7x	18.0x	6.0x	5.1x	4.2x	0.0%
3319 HK	A-Living Services	31.30	5,712	20.5x	14.6x	11.1x	4.8x	3.7x	3.0x	1.9%
9666 HK	Jinke Services	51.55	4,325	36.9x	25.7x	17.0x	0.9x	3.5x	3.0x	1.1%
2869 HK	Greentown Service	8.87	3,698	34.5x	24.7x	18.4x	3.5x	3.3x	2.9x	1.0%
1995 HK	Eversunshine	16.60	3,563	60.8x	36.7x	24.2x	8.1x	6.8x	5.5x	0.6%
6049 HK	Poly PPT Dev	46.80	3,328	34.1x	24.5x	18.9x	3.5x	3.2x	2.8x	1.0%
2669 HK	China Overseas PH	7.79	3,291	35.6x	27.8x	21.6x	11.9x	9.0x	6.8x	0.8%
1755 HK	S-Enjoy Services	18.68	2,094	30.2x	19.3x	13.5x	10.1x	6.0x	4.7x	1.1%
9909 HK	Powerlong CM	23.20	1,920	42.0x	27.6x	19.8x	5.8x	5.0x	4.2x	1.2%
3913 HK	KWG Living	7.11	1,844	33.3x	17.3x	10.8x	4.1x	3.4x	2.7x	0.9%
2606 HK	Languang Justbon	54.15	1,239	16.1x	NA	NA	3.2x	NA	NA	2.0%
9983 HK	CC New Life*	6.48	1,058	15.1x	11.5x	9.0x	2.7x	2.3x	2.0x	2.9%
9979 HK	Greentown Mgmt	4.02	1,012	13.7x	11.7x	9.4x	2.2x	2.0x	1.9x	4.8%
3316 HK	Binjiang Services	25.55	908	28.6x	18.2x	12.0x	7.1x	5.3x	3.9x	3.5%
6626 HK	Yuexiu Services	4.21	823	NA	13.5x	7.8x	NA	NA	NA	0.0%
9928 HK	Times Neighbor	5.23	662	18.6x	10.6x	7.1x	2.5x	2.1x	1.7x	1.5%
6958 HK	Zhenro Services	4.95	660	21.7x	15.5x	10.4x	3.2x	2.7x	2.2x	0.0%
1778 HK	Colour Life	2.71	518	6.9x	6.1x	5.7x	0.8x	0.7x	0.6x	3.6%
2168 HK	Kaisa Prosperity	24.00	475	13.9x	8.7x	5.8x	2.5x	2.1x	1.7x	3.2%
2215 HK	Dexin Services	3.40	444	NA	NA	NA	NA	NA	NA	0.0%
3662 HK	Aoyuan Healthy Life*	4.66	435	11.3x	7.9x	5.6x	2.7x	2.3x	1.9x	3.4%
1971 HK	Redsun Services	4.50	240	19.6x	9.8x	6.6x	2.3x	2.6x	2.2x	1.3%
1922 HK	Yincheng LS*	4.09	140	13.5x	9.0x	7.9x	4.7x	3.5x	2.6x	2.1%
<b>Total/Average</b>			<b>101,616</b>	<b>31.9x</b>	<b>21.0x</b>	<b>14.6x</b>	<b>4.9x</b>	<b>4.1x</b>	<b>3.4x</b>	<b>1.4%</b>

Source: Bloomberg Estimates, \*AMTD Research Estimates

Note: As of 12 August 2021

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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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