

Central China Real Estate Limited

Asset-light Business Spin-off to Unlock 64% Valuation

We believe Central China Management Company spin-off will unlock HK\$7.5bn in valuation, accounting for 64% of CCRE's current market cap. CCMC achieved 2017-2019 revenue CAGR of 82.3% and we estimate it's on track to deliver another 20% revenue growth in 2020E with a high net margin of ~60%. Reiterate Buy.

CCMC spin-off will drive CCRE's valuation re-rating by 64%

On 10 Nov, CCRE announced the spin-off and separate listing of its asset-light business. CCRE intends to payout a special interim dividend by way of a distribution in specie and the spin-off will not involve any offering of shares and no new proceeds will be raised. We estimate the new entity CCMC (Central China Management Company) to achieve a valuation of HK\$11.5bn, implying that CCRE's market cap will be re-rated by 64%. We maintain our Target Price of HK\$6.10, as our fair value estimate has factored in the market value of its asset-light business. Reiterate Buy.

CCMC expected to be traded at 15.2x 2019 P/E vs CCRE at 5.2x 2019 P/E

Greentown Management (9979.HK, NR) is now trading at 15.2x 2019 P/E and we expect CCMC will be traded at a similar P/E Multiple, implying the valuation of CCMC will be at ~HK\$11.5bn. CCMC generated RMB641mn of attrib. net profit in 2019 with a 2017-2019 net profit CAGR of 112.3%. Meanwhile, Greentown Management achieved a 2019 attrib. net profit of RMB325mn with a 2017-2019 attrib. net profit CAGR of 14.7%. Considering the growth potential, we expect CCMC to be traded at 15.2x 2019 P/E, much higher than CCRE's current valuation of 5.2x 2019 P/E, and it should unlock a valuation of ~HK\$7.5bn (64% of current market cap).

CCMC has achieved 17.8% attrib. Net Profit YoY growth in 1H20

In 2019, CCMC's projects under management recorded an aggregate GFA sold of ~5.2mn sq.m., and the 2017-2019 contract sales CAGR reached 107.8%, both of which ranked No.1 in China. As of Oct, CCMC realized YTD contract sales of RMB25bn with a YoY growth of 15.7%. In 1H20, CCMC has achieved RMB481mn of revenue (YoY 16.8%) and RMB302mn of attrib. NP (YoY 17.8%), while Greentown Management reported revenue and net profit YoY decline in 1H20. We estimate CCMC will deliver another 20% growth for 2020E and the high net profit margin of ~60% will be extended.

No proceeds raised in the spin-off

CCRE intends to payout a special interim dividend by way of a distribution in specie and the qualifying CCRE shareholders will be entitled to one share of CCMC for certain CCRE shares, implying that CCRE shareholders will hold the same proportionate interests in CCMC as they hold in CCRE. Meanwhile, the spin-off will not involve any offering of shares and no new proceeds will be raised.

Trading at deep valuation of 4.1x 2020E Forward P/E

CCRE is still trading at an attractive 4.1x 2020E Forward P/E (Industry: 5.5x) and offers a ~12% 2020E dividend yield based on current valuation. Assuming CCMC will be listed at a HK\$11.5bn valuation, we believe CCRE should be re-rated. We maintain our Target Price of HK\$6.10, offering a 50% upside.

Stock code: 0832.HK

Rating: Buy

Price target (HK\$)	6.10
Current price (HK\$, 10th Nov 2020)	4.16
Upside/downside %	47%
Market cap (HK\$ m)	11,762
Market cap (US\$ m)	1,517
Avg daily turnover (US\$ m)	1.78

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	5.2	4.1	2.9	2.7
P/BV	1.1	0.9	0.8	0.7
Div. yield	11.4%	11.7%	14.4%	15.3%
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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CCMC Valuation

Central China Management Company is expected to unlock valuation of HK\$7.5bn

Based on Greentown Management (9979.HK)'s valuation of 15.2x 2019 trailing P/E, we expect CCMC's market cap will be ~HK\$11.5bn after listing on HKEx. This implies a ~HK\$7.5bn of value accretion, or 64% of current CCRE's market cap (Figure 1).

... and implies market is not crediting any value to CCRE's heavy asset business

If we work backwards based on this ~HK\$11.5bn valuation of CCMC, and take this out from the current market cap of CCRE, this would imply that investors are only valuing CCRE's Heavy Asset Business at a 0.1x FY20E P/E (Figure 2), which we believe shows how undervalued the stock (832.HK) is.

Figure 1: CCRE Light Asset Value Accretion based on 15.2x 2019 P/E of Greentown Mgmt.

	FY19 Revenue (RMBm)	FY19 Attri. Net Profit (RMBm)	19 P/E	Valuation (HK\$m)	CCRE Market Cap (HK\$m)*	Value Accretion to CCRE
CCMC (after listing)	1,029	641	15.2x	11,464		
CCMC (before listing)	1,029	641	5.2x	3,943		
Value Accretion				7,522	11,762	64%

Source: Company data, AMTD Research Estimates

Note:* As of 10th Nov

Figure 2: If light assets are revalued based on 15.2x FY19 P/E

(RMBm)

Light Asset-CCMC

CCMC FY19 Revenue	1,029
CCMC FY19 Attri. Net Profit	641
CCMC 19 P/E	15.2x
CCMC Valuation	9,745

Heavy Asset

CCRE Market Cap(as of 10 Nov)	9,998
Implied Heavy Asset Valuation	253
Heavy Asset Attrib. Net Profit FY20E	1,733
Implied Heavy Asset FY20E P/E	0.1x

Source: Company data, AMTD Research Estimates

Valuation

Figure 3: Peers Valuation comparison

Date	10/11/2020	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	27.75	49,889	7.3x	6.6x	5.8x	1.5x	1.3x	1.1x	4.3%
960 HK	Longfor	48.45	37,507	16.4x	13.6x	11.5x	2.8x	2.4x	2.1x	2.8%
1109 HK	CR Land	36.25	33,340	7.9x	9.4x	8.0x	1.4x	1.2x	1.1x	3.3%
2007 HK	Country Garden	11.06	31,433	5.4x	5.0x	4.4x	1.4x	1.2x	1.0x	5.9%
688 HK	COLI	20.85	29,460	5.0x	5.4x	4.7x	0.7x	0.7x	0.6x	5.1%
3333 HK	Evergrande	17.12	29,425	11.8x	7.4x	6.3x	1.4x	1.2x	1.1x	4.3%
1918 HK	Sunac	31.55	18,968	6.0x	4.3x	3.7x	1.5x	1.2x	0.9x	4.4%
813 HK	Shimao	30.00	13,688	8.2x	7.3x	6.0x	1.3x	1.2x	1.0x	5.5%
3380 HK	Logan	13.20	9,398	6.5x	5.2x	4.4x	2.1x	1.6x	1.3x	7.1%
884 HK	CIFI	5.93	6,287	7.5x	5.2x	4.3x	1.4x	1.1x	0.9x	5.9%
3383 HK	Agile	11.60	5,860	6.0x	4.9x	4.5x	0.9x	0.8x	0.7x	9.0%
1030 HK	Seazen	6.68	5,350	5.2x	4.3x	3.7x	1.4x	1.1x	0.9x	5.3%
2777 HK	R&F	10.60	5,130	3.2x	3.4x	3.0x	0.4x	0.4x	0.4x	13.7%
1813 HK	KWG	11.62	4,763	3.7x	5.1x	4.2x	0.9x	0.8x	0.7x	7.2%
3900 HK	Greentown	12.50	4,021	10.6x	9.7x	8.8x	0.9x	0.9x	0.8x	2.7%
123 HK	Yuexiu	1.63	3,255	6.0x	5.4x	4.6x	0.6x	0.5x	0.5x	6.3%
1238 HK	Powerlong*	5.73	3,061	7.7x	5.3x	4.3x	0.7x	0.6x	0.6x	7.2%
1638 HK	Kaisa	3.82	3,021	8.1x	4.0x	3.1x	0.8x	0.7x	0.6x	3.0%
3883 HK	Aoyuan*	8.48	2,956	5.0x	3.2x	2.9x	1.4x	1.1x	0.9x	7.2%
3990 HK	Midea RE	18.18	2,885	5.0x	3.8x	3.1x	1.0x	0.9x	0.7x	10.0%
1233 HK	Times	11.42	2,860	3.6x	3.3x	2.8x	1.0x	0.8x	0.7x	8.4%
6158 HK	Zhenro	4.93	2,777	7.6x	6.4x	5.1x	1.1x	1.0x	0.9x	2.3%
1628 HK	Yuzhou*	3.33	2,383	4.3x	4.2x	2.9x	0.7x	0.6x	0.6x	12.4%
2772 HK	Zhongliang	5.11	2,361	3.9x	3.5x	2.9x	1.9x	1.3x	1.0x	19.4%
1966 HK	China SCE	3.53	1,922	4.3x	3.8x	3.1x	0.8x	0.7x	0.6x	6.8%
95 HK	Lvgem*	2.56	1,683	9.3x	6.9x	6.7x	0.9x	0.8x	0.7x	2.4%
832 HK	CCRE*	4.16	1,517	5.2x	4.1x	2.9x	1.1x	0.9x	0.8x	11.4%
1996 HK	Redsun*	2.91	1,247	7.0x	5.0x	4.2x	0.6x	0.6x	0.5x	4.2%
3301 HK	Ronshine	5.57	1,223	2.7x	3.0x	2.1x	0.5x	0.5x	0.4x	6.6%
119 HK	Poly Prop	2.47	1,166	2.7x	3.1x	2.6x	0.3x	0.3x	0.2x	8.5%
272 HK	Shui On Land	1.11	1,154	5.0x	NA	NA	0.2x	0.2x	NA	11.2%
2019 HK	Dexin China	2.92	1,017	4.4x	4.0x	3.3x	1.4x	NA	NA	3.1%
1098 HK	Roadking	10.24	990	2.6x	NA	NA	0.4x	NA	NA	11.5%
6111 HK	Dafa*	6.71	716	10.4x	9.9x	9.3x	1.5x	1.3x	1.2x	2.4%
230 HK	Minmetals*	0.91	393	3.7x	4.6x	3.3x	0.3x	0.3x	0.3x	8.8%
Total/Average			323,110	6.3x	5.5x	4.6x	1.1x	0.9x	0.8x	6.8%

Source: Company data, *AMTD Research Estimates

Note: As of 10th Nov

Key Downside Risks:

- (1) Greentown Management's share price decline, resulting in a lower multiple as a valuation benchmark for CCRE's asset light business;
- (2) Spin-off and separate listing is delayed, resulting in CCMC still being a subsidiary of CCRE and trading at the same valuation level as CCRE
- (3) Overall contracted sales slow down in CCRE

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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
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