

Central China New Life Limited

Property Management 2.0 – The Digital Era

We reiterate our Buy rating on Central China New Life, following its stronger than expected 2020 results. We believe that there is upside risk to our FY2021E-2022E earnings estimates as profit margins came in better than expected. Reiterate Buy.

Ecosystem matures, profit margin expands

As we mentioned in our research report "[Opportunities Emerging in Property Management Sector](#)", dated 31 Dec 2020, we see deep value in the small-mid cap property management stocks such as Central China New Life. We believe there is upside risks to our 2021E-2022E net profit forecasts, as the companies' core net margins expanded to 16% (AMTD: 14%), which is attributable to monetization of its maturing ecosystem, in our view. If we assume the same core net margins are maintained going forward, it could potentially result in an upside risk of 16-18% to our 2021E-2022E net profit forecasts, respectively. We reiterate our Buy Rating, with our target price offering 95% upside potential.

Jianye+ Takes Center Stage as New Management is Appointed

Along with the results announcement, the company announced the resignation of Mr. Cai Bin as Chief Operating Officer and Executive Director, while promoting Mr. Wang Qian to be appointed as Executive Director. We believe this marks the company's evolution into the Digital Era. Mr. Wang Qian has been involved in the online technology industry since 2002 and has joined Central China New Life since October 2020, bringing with him extensive experience from the internet industry. We believe such an appointment is an important milestone for the company's development and its long-term growth as Central China New Life seeks to further monetize on its user base of homeowners, especially through its Jianye+ platform.

2020 Results Beat our expectations by 16%, Final DPS of HK\$0.18/sh

Central China New Life's net profit came in at RMB426m, 16% above our expectations (AMTD: RMB366m), mainly due to a higher than expected net margins. Revenues and Gross Profit were in-line with our expectations at RMB2,654m and RMB860m, respectively. However, SG&A were 21% lower than our estimates, which has resulted in the net profit margins being 2.1 percentage points higher than our expected at 16%. A final DPS of HK\$0.18/sh was declared, implying a 60% dividend payout ratio, which is underpinned by a strong balance sheet with RMB2.2bn of cash and cash equivalent. Nonetheless, the significant rise in Trade and Other Receivables to RMB1,329m (Up 73% YoY) is our key concern, especially as a significant portion of the increment is due from Related parties.

GFA Under Management grew 75.5% to reach 100m sqm by end-2020

Central China New Life's GFA Under Management has grown by 75.5% YoY in 2020 to reach 100m sqm, of which 45% are projects of third-party developers. We expect the company continue to grow by 50% YoY in scale during 2021. This will not only underpin its revenue growth, through both property management income and value-added services, but also add valuable user base as its key asset as they continue its evolution into the digital era, in our view.

Key Risks: (1) Monetisation of user base through Jianye+ weaker than expected; (2) Trade and Other Receivables continue to rise at a higher rate than revenue growth; (3) Slow down in Property Management Revenue.

Stock code: 9983.HK

Rating: Buy

Price target (HK\$)	13.56
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Current price (HK\$, 29 Mar 2021)	6.95
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Upside/downside %	95%
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Market cap (HK\$ m)	8,738
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Market cap (US\$ m)	1,127
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Avg daily turnover (US\$ m)	11.77
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Source: Bloomberg, AMTD Research

Key forecasts

(RMBm)	2019	2020	2021e	2022e
Revenue	1,754	2,654	3,550	4,472
yoy %	152.8%	51.3%	33.7%	26.0%
Gross Profit	576	861	1,148	1,430
yoy %	258.6%	49.4%	33.4%	24.6%
Core Net Profit	243	427	488	606
yoy %	NA	75.4%	14.4%	24.1%
Gross margin	32.8%	32.4%	32.3%	32.0%
Net gearing	Net	Net	Net	Net
EPS	NA	0.38	0.39	0.49
DPS	NA	0.16	0.12	0.15
BPS	NA	2.16	2.41	2.75

Source: Company data, AMTD Research

Valuation

	2019	2020	2021e	2022e
P/E	NA	16.7	16.2	13.1
P/BV	NA	2.9	2.6	2.3
Div. yield	NA	2.2%	1.5%	1.9%
ROE	63.3%	15.9%	16.3%	17.7%
ROA	16.0%	10.0%	11.9%	13.4%

Source: Bloomberg, AMTD Research

Share price performance



Source: Bloomberg

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Figure 1: Central China New Life FY20 Financial Results Summary

FY20 Results (RMB '000)	FY20A	FY20E	Diff (%)	FY19A	YoY/Chg
Property Management and Value-added Services	2,198,540	2,024,530	9%	1,341,092	64%
Lifestyle services	366,382	443,062	-17%	308,575	19%
Commercial property management and consultation services	89,577	157,103	-43%	104,735	-14%
Revenue	2,654,499	2,624,695	1%	1,754,402	51%
Cost of sales	(1,793,782)	(1,764,255)	2%	(1,178,118)	52%
Gross profit	860,717	860,440	0%	576,284	49%
Selling and marketing expenses	(52,919)	(69,558)	-24%	(46,494)	14%
Administrative expenses	(273,366)	(344,560)	-21%	(230,311)	19%
Net impairment losses on financial assets	(15,258)	(272)	5504%	(182)	8284%
Other income	17,547	52,494	-67%	20,463	-14%
Other gains—net	6,546	6,128	7%	4,096	60%
Operating profit	543,267	504,672	8%	323,856	68%
Finance cost—net	13,643	(16,286)	-184%	(16,286)	-184%
Share of net (loss)/profit of an associate accounted for using the equity method	(1)	(29)	-97%	(29)	-97%
Profit before income tax	556,909	488,357	14%	307,541	81%
Income tax expenses	(116,165)	(122,089)	-5%	(74,702)	56%
Profit from continuing operations	440,744	366,268	20%	232,839	89%
Loss from discontinued operation	-	-	N/A	(5,054)	-100%
Profit/(loss) for the year	440,744	366,268	20%	227,785	93%
Owners of the Company	426,587	366,268	16%	233,954	82%
Non-controlling interests	14,157	-	N/A	(6,169)	-329%
Core attributable NP	426,587	366,472	16%	243,178	75%
Key Ratios					
GP Margins	32.4%	32.8%		32.8%	-0.4ppt
Selling and marketing expenses as % of revenue	-2.0%	-2.7%		-2.7%	0.7ppt
Administrative expenses as % of revenue	-10.3%	-13.1%		-13.1%	2.8ppt
Core Net Margins	16.1%	14.0%		13.9%	2.2ppt
	FY20A	FY20E		FY19A	YoY/Chg
Net Debt to Equity	Net Cash	Net Cash		Net Cash	N/A

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

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