

Central China Real Estate Limited

Undervalued Amid Market Concerns, Reiterate Buy

We reiterate our Buy rating on CCRE following its 1H21 results announcement, as we believe that the stock is undervalued amid market's concerns regarding its position vis-à-vis other listed entities within the CCRE Group. We believe that CCRE's role will continue to be the core bread and butter of the development of all listed business units.

undervalued stock offering 20.3% 2021E div yield

CCRE's 1H21 DPS of RMB0.12/sh implies an interim dividend yield of 7.7%, and its 2021E full year div yield could reach 20.3%. We believe this underscores that the stock is undervalued. The 21.5% YoY increase in DPS reflects management's confidence in the company's 2H21 contracted sales and cash flows, in our view. In addition, we remain optimistic on CCRE's position as a key contributor to the other asset-light business units through its brand value and access to resources.

1H21 results slightly below expectations amid higher Minority Interests

CCRE announced its 1H21 results, with revenue growing 56% YoY to RMB20.4bn while we estimate core net profit decreased 14% YoY to RMB677mn, representing 28% of our full-year estimate. The drop in the core net profit is due to higher than expected profit sharing to minority interests (~29% of Total Net Profit vs our estimate of ~14%). Its balance sheet profile weakened with Net Gearing at 93% and Cash to Short-term Debt at 1.9x, while Liabilities-to-Asset (excl. Contract Liab.) exceeded the Red Line at 87%.

CCRE remain as Central China Group's core bread and butter

We believe the depressed valuations reflect that market is concerned about management's commitment to CCRE relative to its other listed entities, namely Central China New Life (9983 HK), Central China Management (9982 HK), and DIT Group (0726 HK). On the contrary, we believe that CCRE remains as the core bread and butter of CCRE Group, as it remains at the heart of Central China's brand value and access to resources. The separate listing of the business units just reflects the further specialization of the China property industry, in our view, mirroring developed markets such as the U.S. Going forward, we believe such specialization will improve the operational efficiencies of each unit. We expect CCRE's operational and capital allocation efficiency will also improve in its role as asset owner, in our view.

Contracted sales target revised due to Henan flooding

CCRE was heavily affected by the July flooding in Henan due to its concentration in the province. Given such force majeure event, management has revised down its full-year contracted sales target to RMB70bn (from RMB80bn), but is still a 2.4% increase from 2020. July YTD contracted sales reached RMB33.4bn, representing 48% of its revised target. We believe it will be able to meet this target given their ~RMB68.8bn saleable resources in 2H21, implying a required sell-through rate of 57%.

Depressed valuations at 2.0x 2021E P/E, offering 20.3% div yield

The stock is currently trading at depressed levels of 2.0x 2021E P/E, offering an attractive 20.3% div yield, implying that the stock is undervalued, in our view. **Key Risks:** (1) Further lowering of GP margins; and (2) Slower than expected contracted sales.

Stock code: 0832.HK

Rating: Buy

Price target (HK\$)	3.85
Current price (HK\$, 19 August 2021)	1.93
Upside/downside %	100%
Market cap (HK\$ m)	5,727
Market cap (US\$ m)	735
Avg daily turnover (US\$ m)	1.78

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	2.0	2.0	1.8	1.8
P/BV	0.4	0.4	0.3	0.3
Div. yield	19.6%	20.3%	22.1%	23.2%
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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Figure 1: CCRE 1H21 Results Summary

1HFY21 Results (RMB '000)	1HFY21A	FY21E	% of FY21E	1HFY20A	YoY/Chg
Sales of properties	19,417,567	50,911,489	38%	12,364,883	57%
Project management service fee income	566,363	672,469	84%	462,048	23%
Hotel operations	165,599	319,039	52%	92,495	79%
Others	115,626	207,056	56%	41,954	176%
Rental income	91,751	166,082	55%	57,478	60%
Total Revenue	20,356,906	52,276,136	39%	13,018,858	56%
Cost of sales	(16,719,102)	(43,389,193)	39%	(9,930,084)	68%
Gross profit	3,637,804	8,886,943	41%	3,088,774	18%
Other revenue	130,800	81,274	161%	170,131	-23%
Other net income	190,137	133,371	143%	522,151	-64%
Selling and marketing expenses	(773,087)	(1,964,410)	39%	(907,309)	-15%
General and administrative expenses	(788,693)	(1,833,312)	43%	(822,815)	-4%
Impairment losses on trade and other receivables, including contract assets	(35,110)	(56,126)	63%	(95,498)	-63%
Share of profits less losses of associates	817	30,216	3%	(2,557)	-132%
Share of profits less losses of joint ventures	68,874	406,960	17%	(41,259)	-267%
Net Finance costs	(464,356)	(631,649)	74%	(369,524)	26%
Profit before change in fair value of investment properties and income tax	1,967,186	5,053,267	39%	1,542,094	28%
Net valuation gain on investment properties	96,886	-	N/A	(84,789)	-214%
Profit before tax	2,064,072	5,053,267	41%	1,457,305	42%
Income tax expense	(1,038,859)	(2,245,279)	46%	(671,148)	55%
Net profit	1,025,213	2,807,988	37%	786,157	30%
Owners of the Company	729,124	2,407,074	30%	726,982	0%
Non-controlling interests	296,089	400,914	74%	59,175	400%
Core Net Profit	677,446	2,407,074	28%	785,787	-14%
Key Ratios					
GP Margin	17.9%	17.0%		23.7%	-5.9ppt
Core Net Margin	3.3%	4.6%		6.0%	-2.7ppt
	1HFY21A	FY21E		1HFY20A	YoY/Chg
Net Debt to Equity (with restricted cash)	93%	22%		35%	57.9ppt
Net Debt to Equity (without restricted cash)	137%	63%		82%	54.4ppt
Debt to Asset (excl. Contract Liabilities)	87%	86%		86%	0.9ppt
Cash to Short-term Borrowings	1.9x	2.2x		1.6x	0.3x
Total Assets to Total Equity	12.7x	11.1x		12.5x	0.1x

Source: Company data, AMTD Research Estimates

Figure 2: China Property Developers: Peers Valuation Comparison

Date	19/8/2021	Share Price	Mkt cap	P/E			P/B			Div. yield
Ticker	Name(EN)	(HK\$)	(USD mn)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20
China Property Developers										
2202 HK	Vanke	22.85	40,219	5.6x	5.1x	4.7x	1.0x	0.9x	0.8x	6.2%
960 HK	Longfor	36.40	28,336	10.2x	8.2x	7.0x	1.7x	1.5x	1.3x	4.4%
688 HK	COLI	18.22	25,592	4.7x	4.0x	3.8x	0.5x	0.5x	0.4x	7.3%
1109 HK	CR Land	27.90	25,532	7.3x	6.1x	5.3x	0.9x	0.8x	0.7x	5.0%
2007 HK	Country Garden	8.20	23,656	4.5x	4.1x	3.5x	0.9x	0.7x	0.6x	6.2%
1918 HK	Sunac	19.38	11,595	2.8x	2.2x	1.9x	0.6x	0.5x	0.4x	9.6%
3333 HK	Evergrande	5.00	8,501	1.9x	2.4x	2.4x	0.4x	0.3x	0.3x	3.4%
813 HK	Shimao	15.50	7,037	3.9x	3.3x	2.8x	0.5x	0.5x	0.4x	10.9%
3380 HK	Logan	9.20	6,519	3.5x	2.9x	2.5x	1.1x	0.8x	0.6x	12.4%
1030 HK	Seazen	7.20	5,738	3.8x	3.7x	3.3x	1.1x	0.8x	0.7x	6.4%
884 HK	CIFI	5.25	5,636	4.8x	3.8x	3.2x	1.0x	0.8x	0.7x	7.3%
3383 HK	Agile	9.07	4,559	3.3x	3.1x	2.8x	0.6x	0.5x	0.4x	13.6%
1813 HK	KWG	8.81	3,599	3.8x	3.0x	2.5x	0.5x	0.5x	0.4x	11.9%
1238 HK	Powerlong*	6.45	3,429	6.2x	4.9x	3.9x	0.6x	0.6x	0.5x	7.3%
2777 HK	R&F	7.07	3,405	2.7x	2.7x	2.3x	0.2x	0.2x	0.2x	15.9%
3900 HK	Greentown	10.16	3,253	9.3x	7.0x	6.3x	0.7x	0.6x	0.6x	3.9%
123 HK	Yuesiu*	7.37	2,929	4.7x	4.1x	3.3x	0.4x	0.4x	0.4x	8.3%
6158 HK	Zhenro	4.66	2,612	7.0x	5.9x	4.9x	0.9x	0.8x	0.7x	3.0%
3990 HK	Midea RE	14.72	2,332	3.8x	2.9x	2.5x	0.7x	0.6x	0.5x	12.2%
9993 HK	Radianc*	4.36	2,263	5.1x	4.6x	3.5x	0.7x	0.6x	0.6x	7.4%
1638 HK	Kaisa	2.29	2,062	3.0x	1.9x	1.7x	0.4x	0.2x	0.2x	5.7%
2772 HK	Zhongliang	4.48	2,059	3.7x	3.1x	2.8x	1.2x	1.0x	0.8x	10.3%
1233 HK	Times	7.82	1,991	2.5x	2.3x	2.0x	0.7x	0.5x	0.4x	11.0%
2103 HK	Sinic*	4.00	1,833	6.4x	5.8x	4.6x	1.2x	1.0x	0.9x	4.2%
3883 HK	Aoyuan*	5.19	1,796	2.4x	2.2x	2.0x	0.6x	0.5x	0.5x	17.8%
1966 HK	China SCE	2.93	1,588	3.3x	2.6x	2.1x	0.5x	0.4x	0.4x	9.5%
272 HK	Shui On Land	1.30	1,345	NA	NA	NA	0.2x	NA	NA	0.0%
1628 HK	Yuzhou*	1.54	1,246	NA	8.5x	5.2x	0.3x	0.3x	0.3x	23.4%
95 HK	Lvgem*	1.83	1,197	12.6x	4.4x	4.3x	0.3x	0.3x	0.3x	0.0%
1996 HK	Redsun*	2.71	1,159	5.7x	4.1x	3.8x	0.5x	0.5x	0.4x	5.3%
2019 HK	Dexin China*	3.04	1,054	4.7x	4.5x	4.1x	1.2x	1.0x	0.8x	4.3%
3301 HK	Ronshine	4.42	955	2.7x	3.1x	2.5x	0.4x	0.3x	0.3x	11.7%
119 HK	Poly Prop	1.99	948	3.6x	NA	NA	0.2x	NA	NA	6.4%
1098 HK	Roadking	8.93	859	NA	NA	NA	0.3x	NA	NA	6.2%
832 HK	CCRE*	1.93	735	2.0x	2.0x	1.8x	0.4x	0.4x	0.3x	19.6%
6111 HK	Dafa*	6.19	658	12.5x	10.0x	8.3x	1.2x	1.1x	1.0x	1.6%
230 HK	Minmetals*	0.79	339	23.5x	10.9x	6.1x	0.3x	0.3x	0.3x	2.5%
Total/Average			238,564	5.5x	4.4x	3.6x	0.7x	0.6x	0.5x	8.2%

Source: Bloomberg Estimates, *AMTD Research Estimates

Note: As of 19 Aug 2021

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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
Sell	Stock with potential loss of over 20% over the next 12 months

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