

# China / Hong Kong Company Update

## Central China New Life

Bloomberg: 9983 HK Equity | Reuters: 9983.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Feb 2022

**HOLD** (Downgrade from BUY)

Last Traded Price (10 Feb 2022): HK\$5.35 (HSI : 24,924)  
Price Target 12-mth: HK\$5.73 (7% upside) (Prev HK\$11.26)

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### What's New

- Growth prospects under pressure, affected by related developer's liquidity struggle and slower-than-expected progress on the Jianye+ platform
- Expects downward adjustment to its 3-year growth plan previously disclosed in Aug-21
- Cut FY21-23F earnings to factor in impact from 1) COVID-19 outbreak in Henan; 2) slow progress on Jianye+; and 3) liquidity constraint from related developer
- Downgrade to HOLD upon weakened growth outlook; TP trimmed to HK\$5.73

## Future earnings clouded by uncertainty

### Investment Thesis

**Earnings to take a hit from ongoing pressure faced by related developer.** CCNL is fairly dependent on the overall performance of CCRE (832 HK) with c.48% of its 1H21 gross profit derived directly from its related developer via non-property owner VAS. Alongside the recent COVID-19 outbreak in Henan and a tougher liquidity environment in the development sector, we believe CCRE will face higher liquidity pressure, and delivery pace is expected to slow and presales outlook to weaken accordingly. Support through intelligent community solutions will likely be slower as well. We estimate impact from these fronts would reduce our FY21-23F earnings by c.0-28%.

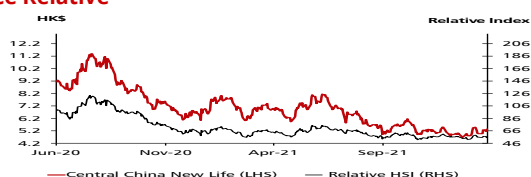
### Searching for an appropriate business model for Jianye+.

CCNL has been actively seeking for ways to penetrate deeper into its community with local lifestyle services offered on its Jianye+ platform. So far, the growth in users and members on the platform have been slower than expected in 2021. We believe CCNL will likely revise down its growth guidance in this business segment in March.

### Valuation:

Our TP is based on a 9.6x FY22F EPS, which is the average 1-year forward PE for the company in 2H21.

### Price Relative



### Forecasts and Valuation

FY Dec (RMB m)	2020A	2021F	2022F	2023F
Turnover	2,654	3,485	4,367	5,221
EBITDA	569	784	828	948
Pre-tax Profit	557	787	832	954
Net Profit	427	598	632	725
Core Profit	427	598	632	725
Core Profit Gth (%)	82.3	40.2	5.7	14.7
Core EPS (RMB)	0.38	0.48	0.51	0.58
Core EPS (HK\$)	0.47	0.59	0.62	0.71
Core EPS Gth (%)	47.0	25.5	5.7	14.7
Core PE (X)	11.4	9.1	8.6	7.5
P/Cash Flow (X)	17.3	12.7	12.4	8.7
EV/EBITDA (X)	4.7	4.1	3.8	3.1
DPS (HK\$)	0.29	0.35	0.37	0.43
Div Yield (%)	5.4	6.6	7.0	8.0
Net Gearing (%)	CASH	CASH	CASH	CASH
ROE (%)	27.9	21.3	20.7	21.8
Book Value (HK\$)	2.96	2.89	3.14	3.42
P/Book Value (X)	1.8	1.9	1.7	1.6
EPS Rev (%)		(0)	(21)	(28)
Consensus EPS (RMB)		0.49	0.68	0.94
Other Broker Recs:		B:10	S:1	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

### Where we differ:

**Moderation in CCNL's growth outlook yet to be fully reflected.** We believe the market has yet to recognize the full impact that the current turbulence in the property market has on CCNL's future growth outlook. Our FY21-23F earnings are 3-37% below market consensus estimates.

### Key Risks to Our View:

Tougher than expected liquidity pressure on CCRE (832 HK); longer than expected search for growth strategy on Jianye+, significant labour cost increments.

### At A Glance

Issued Capital (m shrs)	1,246
Mkt Cap (HK\$m/US\$m)	6,454 / 828
Major Shareholders (%)	
Wu (Po Sum)	66.8
HHLR Advisors, Ltd.	6.7
Free Float (%)	26.5
3m Avg. Daily Val. (US\$m)	0.73
GICS Industry: Real Estate / Real Estate Management & Devel	



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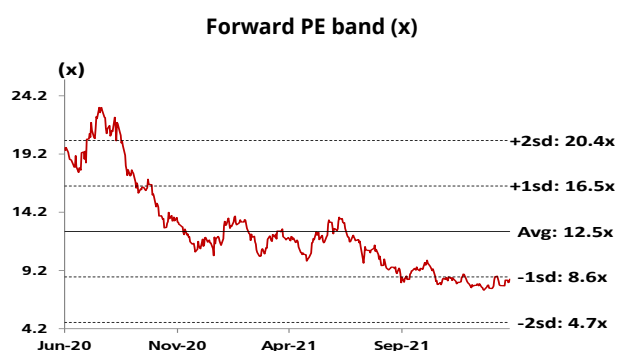
Live more, Bank less

## Central China New Life

### Company Background

Leveraging on the highly recognisable “Central China” brand and CCRE’s rich development pipeline in Henan since its establishment in 1994, CCNL is the largest property management (PM) service provider in central China, both in terms of managed GFA and revenue in 2018, according to the China Index Academy (CIA). The company ranks 12th in terms of comprehensive strength among the Top 100 PM companies in China in 2020 by the CIA.

### Historical PE and PB band



Source: Thomson Reuters, DBS HK

## Central China New Life

### Key Assumptions

FY Dec	2021F	2022F	2023F
Average property management fee growth (%)	5.0%	5.0%	5.0%
Average GFA conversion rate for new projects from 3rd party (years)	1.9	1.9	1.9
Average GFA conversion rate for projects from CCRE (years)	2.7	2.7	2.7

Source: Company, DBS HK

### Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
<b>Revenues (RMB m)</b>					
Property management and VAS	1,341	2,199	2,898	3,648	4,395
Lifestyle Services	309	366	453	558	648
Commercial ppty mgmt and 0	105	90	134	161	177
Others	0	0	0	0	0
	N/A	N/A	N/A	N/A	N/A
<b>Total</b>	<b>1,754</b>	<b>2,654</b>	<b>3,485</b>	<b>4,367</b>	<b>5,221</b>

Source: Company, DBS HK

### Income Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Turnover	1,754	2,654	3,485	4,367	5,221
Cost of Goods Sold	(1,178)	(1,794)	(2,449)	(3,129)	(3,776)
<b>Gross Profit</b>	<b>576</b>	<b>861</b>	<b>1,036</b>	<b>1,238</b>	<b>1,444</b>
Other Opg (Exp)/Inc	(252)	(317)	(279)	(437)	(522)
<b>Operating Profit</b>	<b>324</b>	<b>543</b>	<b>758</b>	<b>802</b>	<b>922</b>
Associates Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(16)	14	30	30	32
Exceptional Gain/(Loss)	(5)	0	0	0	0
<b>Pre-tax Profit</b>	<b>302</b>	<b>557</b>	<b>787</b>	<b>832</b>	<b>954</b>
Tax	(75)	(116)	(164)	(174)	(199)
Minority Interest	6	(14)	(25)	(26)	(30)
<b>Net Profit</b>	<b>234</b>	<b>427</b>	<b>598</b>	<b>632</b>	<b>725</b>
<b>Core Profit</b>	<b>234</b>	<b>427</b>	<b>598</b>	<b>632</b>	<b>725</b>
Sales Gth (%)	152.8	51.3	31.3	25.3	19.5
Net Profit Gth (%)	1,101.6	82.3	40.2	5.7	14.7
Core Profit Gth (%)	1,101.6	82.3	40.2	5.7	14.7
Gross Mgn (%)	32.8	32.4	29.7	28.4	27.7
Core Profit Margin (%)	13.3	16.1	17.2	14.5	13.9
Tax Rate	24.7	20.9	20.9	20.9	20.9

Source: Company, DBS HK

## Central China New Life

### Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Fixed Assets	18	56	35	14	(7)
Invt in Assocs & JVs	1	1	35	35	35
Other LT Assets	82	166	160	155	150
Cash & ST Invt	585	2,219	2,283	2,373	2,591
Other Current Assets	777	1,808	2,294	2,821	3,251
<b>Total Assets</b>	<b>1,463</b>	<b>4,250</b>	<b>4,807</b>	<b>5,398</b>	<b>6,020</b>
ST Debt	0	0	0	0	0
Creditors	654	937	1,231	1,542	1,843
Other Current Liab	363	531	531	531	531
LT Debt	0	0	0	0	0
Other LT Liabilities	64	65	65	65	65
Minority Interests	12	26	51	77	107
Shareholder's Equity	369	2,691	2,931	3,183	3,473
<b>Total Capital</b>	<b>1,463</b>	<b>4,250</b>	<b>4,807</b>	<b>5,398</b>	<b>6,020</b>
Share Capital (m)	899	1,115	1,245	1,245	1,245
Net Cash/(Debt)	585	2,219	2,283	2,373	2,591
Working Capital	(241)	340	533	748	877
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

Source: Company, DBS HK

### Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021F	2022F	2023F
Profit Before Tax	308	557	787	832	954
Assoc. & JV Inc/(loss)	0	0	0	0	0
Tax Paid	(51)	(75)	(164)	(174)	(199)
Depr/Amort	14	26	26	26	26
Chg in Wkg.Cap.	(12)	(243)	(192)	(216)	(128)
Other Non-Cash	22	16	(30)	(30)	(32)
<b>Operating CF</b>	<b>281</b>	<b>281</b>	<b>427</b>	<b>439</b>	<b>621</b>
Net chg in inv.	31	(459)	0	0	0
Assoc, MI, Invsmt	613	(73)	(4)	30	32
<b>Investing CF</b>	<b>644</b>	<b>(533)</b>	<b>(4)</b>	<b>30</b>	<b>32</b>
Net Chg in Debt	(436)	0	0	0	0
New Capital	0	0	0	0	0
Dividend	0	0	(359)	(379)	(435)
Other Financing CF	(38)	1,885	0	0	0
<b>Financing CF</b>	<b>(474)</b>	<b>1,885</b>	<b>(359)</b>	<b>(379)</b>	<b>(435)</b>
Chg in Cash	450	1,633	64	90	218
Chg in Net Cash	887	1,634	64	90	218

Source: Company, DBS HK

**Central China New Life**

**Target Price & Ratings History**



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	16-Aug-21	HK\$6.58	HK\$11.26	Buy

Source: DBS HK

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## Central China New Life

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**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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**Central China New Life**

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