

Central China Real Estate

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DBS Group Research . Equity

2 Jun 2022

BUY

Last Traded Price (2 Jun 2022): HK\$0.750 (HSI : 21,082)
 Price Target 12-mth: HK\$1.29 (72% upside) (Prev HK\$2.34)

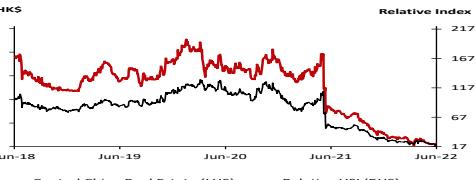
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What's New

- Henan Government's entrance to relieve concerns about company's repayment capability
- CCRE en route to regain access to refinancing channels and poised to record better-than-peer presales recovery
- Cut FY22-23 earnings to factor in 1) weaker presales and thus recognition outlook and 2) lower margin assumptions
- Maintain BUY, with TP cut to HK\$1.29

Price Relative



Forecasts and Valuation

FY Dec (RMB m)	2020A	2021A	2022F	2023F
Turnover	43,304	41,959	38,496	36,300
EBITDA	6,513	4,312	2,992	2,845
Pre-tax Profit	4,935	3,347	2,610	2,513
Net Profit	1,802	605	191	235
Core Profit	1,732	152	191	235
Core Profit Gth (%)	34.3	(91.2)	25.3	22.9
Core EPS (RMB)	0.62	0.05	0.07	0.08
Core EPS (HK\$)	0.73	0.06	0.08	0.10
Core EPS Gth (%)	31.8	(91.4)	25.3	22.9
Core PE (X)	1.0	12.0	9.5	7.8
P/Cash Flow (X)	0.4	2.3	nm	nm
EV/EBITDA (X)	1.1	4.0	6.4	7.3
DPS (HK\$)	0.40	0.18	0.00	0.00
Div Yield (%)	53.3	23.6	0.0	0.0
Net Gearing (%)	13.6	94.9	88.6	83.0
ROE (%)	17.1	5.8	1.9	2.1
Book Value (HK\$)	4.80	3.85	4.30	4.75
P/Book Value (X)	0.2	0.2	0.2	0.2
EPS Rev (%):		(86)	(85)	
Consensus EPS (RMB)		0.31	0.32	
Other Broker Recs:	B:7	S:0	H:0	

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

Becoming a regional SOE developer

Investment Thesis

En route to regain access to refinancing. With the Henan Government proposed to acquire c.29% of CCRE's issued shares from Chairman Po Sum Wu and its subscription of a convertible bond at an c.85% conversion premium, CCRE is seen to have strong backing from the provincial government. We are expecting the company's new quasi-SOE status to help it regain access to refinancing channels, which would be likely to start from the onshore side and later from the offshore front as well.

Eyes on possible presales recovery. In 4M22, CCRE recorded a 34% y-o-y decline in presales alongside a stable ASP of +4% vs. its ASP achieved in 2021. Its presales in May will likely take further hits, as parts of Henan were faced with city lockdown measures upon the resurgence of COVID-19 cases. Having said that, COVID-19 in the province appears to be under control, and more cities are resuming normal operations. We believe CCRE's sales may see better-than-peer recovery, given its strong local reputation and escalated tone of support from the provincial government.

BUY with a lower TP of HK\$1.29/sh. We have cut our earnings forecasts to factor in the company's likely affected construction pace and margin trend. We are maintaining our BUY call on the company, as we believe CCRE will likely be one from a handful of survivors of the sector's turbulence.

Valuation:

Our TP is based on 0.3x FY22F PB, benchmarking CCRE's average forward PB after its spin-off of CCMC (9982 HK) in 2021, when the market was confident of the company's repayment capability.

Where we differ:

Largest overhang removed. The Henan Government's entrance as a substantial shareholder will help relieve market concerns surrounding CCRE's near-term repayment capability. Its latest status as an SOE should also grant it better access to refinancing going forward.

Key Risks to Our View:

Weak presales performance; higher-than-expected margin drag; and slower-than-expected cash collection.

At A Glance

Issued Capital (m shrs)	2,964
Mkt Cap (HK\$m/US\$m)	2,223 / 283
Major Shareholders (%)	
Wu (Po Sum)	70.1
Free Float (%)	29.9
3m Avg. Daily Val. (US\$m)	0.77
GICS Industry: Real Estate / Real Estate Management & Development	



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Central China Real Estate

WHAT'S NEW

Henan provincial government to the rescue

CCRE (832 HK) announced last night after market close that it has entered into a framework agreement with Henan Tongsheng Zhiye (an entity wholly owned by the Henan Provincial People's government), and that 1) a controlling shareholder is to sell 860m shares to it at HK\$0.8/sh; and 2) CCRE is to issue a HK\$708m 5% coupon convertible bond, due in 2024, to Henan Tongsheng at a conversion price not higher than HK\$1.20/sh.

Henan provincial government coming to the rescue... As stated in our result note in late March and our short-term liquidity analysis in late Apr, CCRE's liquidity is stretched, and it will be unable to fully settle its short-term repayments in the absence of refinancing channels, even if it were able to achieve its presales target that it revealed in March. The developer's weak presales performance in April and May, as a result of subdued market sentiment and COVID-19 lockdown measures in parts of Henan, worsened its liquidity position further. The framework agreement came in just a week after the news broke of CCRE pledging its shares in two cultural tourism projects to the provincial government in return for cash, signalling the provincial government's willingness to lend support to the Henan-focused developer.

...at a fairly favourable cost. Wu's partial disposal of shares (c.29% of issued share capital) will be priced at HK\$0.80/sh, which would translate into a c.23% premium to CCRE's closing price yesterday and is roughly at the range where the stock was trading in mid-April. Meanwhile, the proposed CB has a decent duration of two years (with an

option to extend it by a year upon mutual agreement) and is priced at a fair 5% coupon or 9% yield to maturity, with a convertible price of HK\$1.2/sh that represents a c.85% conversion premium. Assuming the conversion price is reached, a total of c.590m convertible shares will be issued, which would represent c.16.6% of CCRE's total issued shares (or a c.14% dilution to FY24F EPS). We believe the terms are actually fairly favourable from CCRE's perspective, considering the current market conditions.

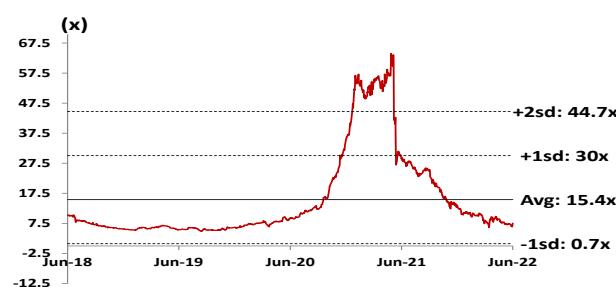
A positive development that will likely drive some share price recovery. While the completion of the transaction is subject to the fulfillment of certain conditions and the funds raised in the two transactions are insufficient to settle CCRE's upcoming offshore bond of US\$500m due in Aug 22, nevertheless, we believe this is a strong sign that the Henan provincial government is willing to lend its support to the developer. We believe the announcement will be received positively by the market, and CCRE's share price will see decent rebounds from here.

Company Background

Central China Real Estate (CCRE) is the largest developer in the Henan province. It focuses primarily on the Henan province and has exposure in Zhengzhou as well as other cities like Kaifeng, Luoyang, Anyang, Pingdingshan, Puyang, Zhumadian, and Xinxiang. As at end-Dec 2021, it owned c.53.5m sqm in its land bank, with c.23.1% in Zhengzhou.

Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

Central China Real Estate

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Property development	29,161	41,607	40,709	37,914	35,718
Property leasing	163	138	203	95	95
Hotel	323	266	286	300	300
Project management service fee	1,023	1,121	575	0	0
Others	97	173	187	187	187
Total	30,767	43,304	41,959	38,496	36,300

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Turnover	30,767	43,304	41,959	38,496	36,300
Cost of Goods Sold	(22,761)	(34,708)	(35,148)	(32,844)	(30,848)
Gross Profit	8,005	8,596	6,811	5,653	5,452
Other Opg (Exp)/Inc	(2,730)	(2,844)	(3,267)	(2,700)	(2,655)
Operating Profit	5,275	5,752	3,543	2,953	2,797
Associates Inc	144	362	161	39	47
Net Interest (Exp)/Inc	(395)	(1,272)	(669)	(381)	(332)
Exceptional Gain/(Loss)	93	93	312	0	0
Pre-tax Profit	5,116	4,935	3,347	2,610	2,513
Tax	(2,701)	(2,834)	(2,094)	(1,501)	(1,425)
Minority Interest	(400)	(300)	(648)	(919)	(853)
Net Profit	2,015	1,802	605	191	235
Core Profit	1,290	1,732	152	191	235
Sales Gth (%)	108.1	40.8	(3.1)	(8.3)	(5.7)
Net Profit Gth (%)	74.6	(10.6)	(66.4)	(68.4)	22.9
Core Profit Gth (%)	98.3	34.3	(91.2)	25.3	22.9
Gross Mgn (%)	26.0	19.9	16.2	14.7	15.0
Core Profit Margin (%)	4.2	4.0	0.4	0.5	0.6
Tax Rate	52.8	57.4	62.6	57.5	56.7

Source: Company, DBS HK

Central China Real Estate

Balance Sheet (RMB m)

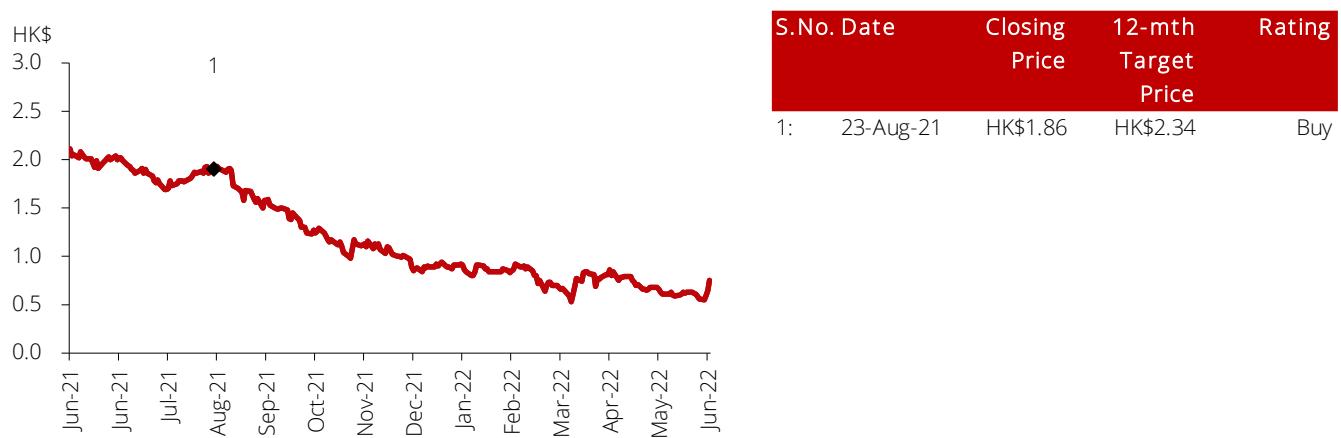
FY Dec	2019A	2020A	2021A	2022F	2023F
Fixed Assets	8,556	11,312	12,876	12,876	12,876
Invts in Assocs & JVs	9,844	5,696	9,713	9,713	9,713
Other LT Assets	2,084	2,208	2,007	2,007	2,007
Cash & ST Invts	30,785	29,327	9,848	6,309	4,524
Other Current Assets	92,698	115,357	111,363	107,851	106,399
Total Assets	143,967	163,901	145,807	138,755	135,517
ST Debt	12,519	15,258	6,761	6,761	5,761
Creditors	96,625	114,157	107,198	100,660	96,481
Other Current Liab	1,154	1,223	1,881	1,881	1,881
LT Debt	18,972	16,045	15,179	12,637	12,637
Other LT Liabilities	2,096	2,635	2,044	2,044	2,044
Minority Interests	2,884	3,205	3,401	4,320	5,172
Shareholder's Equity	9,718	11,377	9,342	10,452	11,539
Total Capital	143,967	163,901	145,807	138,755	135,517
Share Capital (m)	2,732	2,785	2,852	2,852	2,852
Net Cash/(Debt)	(706)	(1,977)	(12,092)	(13,090)	(13,876)
Working Capital	(5,081)	(23)	2,284	5,310	8,037
Net Gearing (%)	5.6	13.6	94.9	88.6	83.0

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Profit Before Tax	5,116	4,935	3,347	2,610	2,513
Assoc. & JV Inc/(loss)	34	(25)	(12)	0	0
Tax Paid	(2,702)	(2,517)	(2,423)	(1,501)	(1,425)
Depr/Amort	298	306	297	0	0
Chg in Wkg.Cap.	2,535	1,393	(2,126)	(3,026)	(2,727)
Other Non-Cash	(4,730)	682	1,699	919	853
Operating CF	551	4,774	781	(998)	(786)
Net chg in inv.	130	6	323	0	0
Assoc, MI, Invsmt	(5,224)	(1,371)	(2,428)	0	0
Investing CF	(5,094)	(1,366)	(2,105)	0	0
Net Chg in Debt	12,500	1,884	(4,302)	708	0
New Capital	25	(89)	(512)	0	0
Dividend	(710)	(1,059)	(2,334)	0	0
Other Financing CF	1,176	(3,942)	(8,187)	(3,250)	(1,000)
Financing CF	12,992	(3,205)	(15,335)	(2,542)	(1,000)
Chg in Cash	8,505	(89)	(16,717)	(3,540)	(1,786)
Chg in Net Cash	1,364	(1,271)	(10,115)	(998)	(786)

Source: Company, DBS HK

Central China Real Estate**Target Price & Ratings History**

Source: DBS HK

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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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