

Central China New Life (9983 HK)

2020 results beat supports ambitions to extend influence from solid Henan home base

CCNL delivered solid results with net profit +82% YoY, beating consensus/CMBI estimates on VAS acceleration (+119% YoY) thanks to new businesses and growing tenant base. The Company guided revenue/NP to grow by 50%/40% three-year CAGR, which we think is reasonable given visible GFA expansion and strong VAS momentum. We revise up 2021E/22E earnings by 13%/16% and maintain **BUY**.

- **2020 earnings beat on VAS acceleration.** CCNL's managed GFA grew 100mn sq m in 2020 from 57mn in 2019. Revenue was up 51.3% YoY to RMB2,655mn driven by Community VAS + 119% and basic PM +45%. GPM declined by 0.4ppt YoY to 32.4% due to COVID impact on the commercial segment. Net profit grew 82% to RMB427mn, beating consensus/our estimates. The Company declared a dividend of HK\$0.18/share, representing 60% payout ratio for entire 2020.
- **VAS could maintain strong momentum.** Community VAS revenue was RMB624mn, contributing to 23% of revenue, thanks to 1) RMB 71mn from new move-in business, 2) RMB 94mn in service fees (+100% YoY) for consumers club members, and 3) +102% revenue (to RMB364mn) in intelligent community business. Although 2020 results benefited new services, we think CCNL is likely to maintain strong momentum in VAS given 1) CCNL's fast and visible GFA expansion with contracted/managed GFA ratio of 1.87, and 2) possible breakthroughs in community retail given 3.7mn registrations (+68% YoY) on Jianye+ platform; 3) post-COVID recovery of commercial/tourism segments.
- **Company guides revenue/NP to grow by 50%/40% three-year CAGR.** In terms of GFA expansion, CCNL plans to increase its expansion radius from 300km to 500km from Zhengzhou, to areas away from Henan where CCNL has less influence. Mgmt has confirmed ~RMB2bn cash on hand post-dividends to support future M&A efforts, potentially as a way to enter into new regions. As for earnings, Company guided 50%/40% revenue/NP CAGR for next three years.
- **Raise earnings forecast in 2021E/22E by 13%/16%.** We revise up 2021E/22E earnings by 13%/16% on strong VAS outlook and fast and visible GFA expansion. Currently CCNL trades at 8x 2022E P/E which is quite attractive, especially given that CCNL is a medium-sized player in terms of GFA. **Raise TP to HK\$12.9** reflecting 15x 2022E P/E. **Maintain BUY.**

Earnings Summary

(YE 31 Dec)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue (RMB mn)	694	1,754	2,654	4,423	6,248
YoY growth (%)	50.7	152.8	51.3	66.6	41.3
Net income (RMB mn)	19	234	427	630	903
EPS (RMB)	N.A.	N.A.	0.38	0.50	0.72
YoY growth (%)	N.A.	N.A.	N.A.	31.9	43.4
Consensus EPS (RMB)	N.A.	N.A.	0.32	0.46	0.62
P/E (x)	N.A.	N.A.	15.2	11.5	8.0
P/B (x)	N.A.	N.A.	2.8	2.1	1.5
Yield (%)	N.A.	N.A.	3.6	5.2	7.5
ROE (%)	16.7	63.3	15.9	17.0	17.6
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$12.90
(Previous TP	HK\$11.20)
Up/Downside	+85.6%
Current Price	HK\$6.95

China Property Service Sector

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Stock Data

Mkt Cap (HK\$ mn)	8,738
Avg 3 mths t/o (HK\$ mn)	24.52
52w High/Low (HK\$)	11.88/5.80
Total Issued Shares (mn)	1,257

Source: Bloomberg

Shareholding Structure

Enjoy Start Ltd.	68.1%
Free float	31.9%

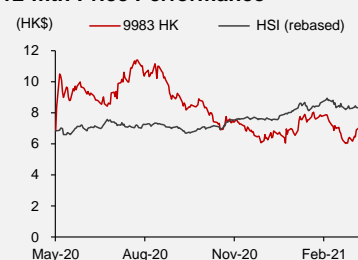
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	1.4%	3.7%
3-mth	7.3%	-0.4%
6-mth	-15.4%	-29.9%
12-mth	N.A.	N.A.

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Figure 1: Earnings revision

RMB mn	New		Old		Diff (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	4,423	6,248	4,235	5,695	4.4%	9.7%
Gross Profit	1,393	1,968	1,215	1,619	14.7%	21.5%
Operating profit	855	1,226	749	1,048	14.1%	16.9%
Net profit	630	903	557	776	13.1%	16.4%
EPS (RMB)	0.50	0.72	0.45	0.62	11.4%	15.9%
Gross Margin	31.5%	31.5%	28.7%	29.9%	2.8ppts	1.6ppts
Operating Margin	19.3%	19.6%	17.7%	18.4%	1.6ppts	1.2ppts
Net Margin	14.2%	14.5%	13.2%	13.6%	1.1ppts	0.8ppts

Source: Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E	YE 31 Dec (RMB mn)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	694	1,754	2,654	4,423	6,248	Profit before tax	72	308	557	855	1,226
Property management	423	592	860	1,613	2,258	D&A	7	10	8	8	8
Value-added services	197	749	1,338	2,050	2,958	Change in working capital	37	(12)	14	(9)	(6)
Lifestyle services	62	309	366	639	902	Income tax paid	(14)	(51)	(117)	(173)	(239)
Commercial PM and	11	105	90	121	130	Others	32	26	-	-	-
Cost of sales	(533)	(1,178)	(1,794)	(3,029)	(4,281)	Cash flow from operating	133	281	462	681	989
Gross profit	161	576	861	1,393	1,968	CAPEX	(4)	(14)	(15)	(13)	(13)
Other income	49	20	18	-	-	Others	142	658	-	-	-
Selling and marketing	(12)	(46)	(53)	(88)	(125)	Cash flow from investing	138	644	(15)	(13)	(13)
Administrative expenses	(86)	(230)	(273)	(425)	(581)	Equity raised	-	-	1,724	-	-
Impairment	(2)	(0)	(15)	(25)	(36)	Change of debts	-	-	-	-	-
Operating profit	110	320	537	855	1,226	Dividends paid	-	-	(259)	(378)	(542)
Share from JV & associates	(1)	(0)	(0)	-	-	Others	(259)	(474)	152	221	330
Finance cost	(43)	(16)	14	-	-	Cash flow from financing	(259)	(474)	1,616	(157)	(212)
Exceptional	5	4	7	-	-	Net change in cash	12	450	2,063	511	765
Pre-tax profit	72	308	557	855	1,226	Cash at the beginning of the	122	134	585	2,648	3,159
Income tax	(20)	(75)	(116)	(205)	(294)	FX differences	-	0	-	-	-
Profit for the year	52	233	441	650	931	Cash at the end of the year	134	585	2,648	3,159	3,924
Discontinued operations	(70)	(5)	-	-	-	Key ratios					
Non-controlling interest	37	6	(14)	(19)	(28)	YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Net profit to shareholders	19	234	427	630	903	Sales mix (%)					
						Property management	61.0	33.8	32.4	36.5	36.1
						Value-added services	28.4	42.7	50.4	46.3	47.3
						Lifestyle services	9.0	17.6	13.8	14.4	14.4
						Commercial PM and	1.6	6.0	3.4	2.7	2.1
						Total	100.0	100.0	100.0	100.0	100.0
						Profit & loss ratios (%)					
						Gross margin	23.2	32.8	32.4	31.5	31.5
						Operating margin	15.9	18.2	20.2	19.3	19.6
						Net margin	2.8	13.3	16.1	14.2	14.5
						Effective tax rate	27.7	24.3	20.9	24.0	24.0
						Growth (%)					
						Revenue	50.7	152.8	51.3	66.6	41.3
						Gross profit	52.6	258.6	49.4	61.9	41.2
						Operating profit	19.2	189.5	67.9	59.3	43.4
						Net profit	-16.8	1101.6	82.3	47.7	43.4
						Balance sheet ratios					
						Current ratio (x)	1.7	1.3	2.7	2.5	2.5
						Receivable turnover days	458	160	183	183	183
						Payables turnover days	242	203	191	190	190
						Net debt / total equity ratio (%)	Net cash	Net cash	Net cash	Net cash	Net cash
						Returns (%)					
						ROE	16.7	63.3	15.9	17.0	17.6
						ROA	1.5	16.0	10.0	10.2	10.6
						Per share					
						EPS (RMB)	N.A.	N.A.	0.38	0.50	0.72
						DPS (RMB)	N.A.	N.A.	0.21	0.30	0.43
						BVPS (RMB)	N.A.	N.A.	2.04	2.72	3.86

Source: Company data, CMBIS estimates

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